Canadian Coalition for Good Governance

THE VOICE OF THE INVESTOR

January 31, 2022

British Columbia Securities Commission
Alberta Securities Commission
Financial and Consumer Affairs Authority of Saskatchewan
Manitoba Securities Commission
Ontario Securities Commission
Autorité des marches financiers
Financial and Consumer Services Commission of New Brunswick
Superintendent of Securities, Prince Edward Island
Nova Scotia Securities Commission
Superintendent of Securities, Newfoundland and Labrador
Superintendent of Securities, Yukon Territory
Superintendent of Securities, Northwest Territories
Superintendent of Securities, Nunavut

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Dear Madam/Sir,

Re: *CSA Consultation Climate-related Disclosure Update and CSA Notice and Request for Comment Proposed National Instrument 51-107 Disclosure of Climate-related Matters*

The Canadian Coalition for Good Governance (CCGG) thanks you for the opportunity to provide feedback on the Consultation Paper.

CCGG's members are Canadian institutional investors that together manage approximately $5 trillion in assets on behalf of pension funds, mutual fund unit holders, and other institutional and individual investors. CCGG promotes good governance practices, including the governance of environmental and social matters, at Canadian public companies and assists institutional investors in meeting their stewardship responsibilities. CCGG also works toward the improvement of the regulatory environment to best align the interests of boards and management with those of their investors and to increase the efficiency and effectiveness of the Canadian capital markets. A list of our members is attached to this submission.

OVERVIEW/GENERAL COMMENTS

CCGG strongly supports implementation of disclosure for climate-related matters and urges the CSA to move quickly to implement the proposed National Instrument 51-107 (Proposed NI 51-107). Canadian institutional investors have long been calling for standardized environmental, social and governance (ESG) disclosures. In respect of climate-change disclosures we fully support mandating disclosures consistent with the recommendations of the Taskforce on Climate Change-related Financial Disclosures (TCFD)[1]. As the CSA has ably summarized in the consultation draft for the Proposed NI 51-107, the landscape with respect to such disclosures is changing quickly and maturing rapidly[2]. There have been significant international developments even since the publication of the Proposed Draft 51-107 in October 2021, notably:

- On November 2, 2021, the UK announced that it plans to be the world's first "Net-Zero Aligned Financial Centre" which will require asset managers, regulated asset owners and listed companies to publish transition plans on a comply or explain basis. The plans should "consider" the government's net zero commitment. The ultimate objective is to have standardized mandatory disclosures once disclosures have further matured[3].

- On November 3, 2021, the IFRS Foundation announced[4]:
  - the establishment of the International Sustainability Standards Board (ISSB) including the creation of a Canadian office in Montréal;

[1] See CCGG's, The Directors' E&S Guidebook, 2018 which recognized both TCFD and the Sustainability Accounting Standards Board (SASB) as good models for E&S disclosures; In June 2020, CCGG became a public supporter of TCFD; On November 25, 2020, eight of Canada's largest public pension plans released a joint statement requesting that companies disclose material, industry-relevant environmental, social and governance performance factors using the SASB standards and the TCFD framework to drive standardized reporting. Also see CCGG's: September 7, 2020 Submission to the Ontario Capital Markets Modernization Taskforce advocating for ESG disclosures built on SASB and TCFD; CCGG's December 11, 2020 Submission to the IFRS Foundation Trustees, supporting the establishment of an International Sustainability Standards Board and recommending alignment with existing initiatives, notably TCFD and SASB; & CCGG's June 9, 2021 Submission to the US SEC in response to its request for public comment on climate change-related disclosure.

[2] Canadian Securities Administrators, Consultation Climate-related Disclosure Update and CSA Notice and Request for Comment Proposed National Instrument 51-107 *Disclosure of Climate-related Matters,*October 18, 2021, Annex F [hereinafter Proposed NI 51-107].

[3] HM Treasury, Guidance Fact Sheet: Net Zero-aligned Financial Centre, November 2, 2021.

[4] IFRS, IFRS Foundation announces International Sustainability Standards Board, consolidation with CDSB and VRF, and publication of prototype disclosure requirements, November 3, 2021.

- further consolidation into the IFRS of existing international sustainability disclosure organizations[5]; and
- publication of prototype climate related disclosures.

We acknowledge that the rapid pace of global developments with respect to climate-related disclosures creates a challenge for Canadian capital markets regulators to "get it right", but we encourage the CSA to move forward notwithstanding this dynamism - do not let the desire to be perfect stand in the way of getting started and innovating as needed. Slow progress or lack of demonstrated commitment to progress on climate change-related disclosures will negatively impact the attractiveness of Canada's capital markets to foreign as well as domestic institutional investors.

More frequent review required:

To ensure that the CSA's disclosure requirements remain globally relevant and competitive, we recommend regular reviews of the required disclosure regime (e.g. to begin with, no later than after two years from the effective date). The goal of the reviews should be to evaluate the effectiveness of the required disclosures (notably in respect of evolving areas such as scenario analysis, the use of safe harbours and the state of maturation of GHG disclosures, particularly GHG Scope 3 emissions, while data and methodologies are still developing). Reviews should be conducted with a view to harmonizing the CSA's requirements with internationally recognized standards as those mature. In our view, the end goal should be harmonization with an internationally recognized ISSB.

RESPONSES TO CSA'S SPECIFIC QUESTIONS:

Experience with TCFD recommendations

1. For reporting issuers that have provided climate-related disclosures voluntarily in accordance with the TCFD recommendations, what has been the experience generally in providing those disclosures? [No CCGG response]

Disclosure of GHG Emissions and Scenario Analysis

2. For reporting issuers, do you currently disclose GHG emissions on a voluntary basis? If so, are the GHG emissions calculated in accordance with the GHG Protocol? [No CCGG response]

3. For reporting issuers, do you currently conduct climate scenario analysis (regardless of whether the analysis is disclosed)? If so, what are the benefits and challenges with preparing and/or disclosing the analysis? [No CCGG response]

[5] The Value Reporting Foundation, which incorporates the Integrated Reporting Framework and SASB) and the Carbon Disclosure Sustainability Board will be consolidated into the ISSB by June 22, 2022.

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?**

   Is this approach appropriate*?*
   No.
   Should the Proposed Instrument require this disclosure?
   Scenario analysis should not be mandatory at this time, given the absence of standardized and comparable scenarios, methodologies and data, but disclosure should be required on a comply or explain basis. The tools to conduct scenario analysis are evolving rapidly and we expect the data and methodologies to improve over time as convergence around a consistent set of standards with respect to how to use scenarios emerges. As this occurs the disclosure requirements with respect to scenario analysis should be reassessed, with a view to making such disclosures mandatory and consistent with leading best practices.
   Should issuers have the option to not provide this disclosure and explain why they have not done so?
   Scenario analysis should be required on a comply or explain basis. If a reporting issuer makes such disclosure, it should include sufficient transparency for investors to understand the rigour behind the assumptions made, the scenarios used and the commitments being made.

   Further Context

   Within the TCFD Framework the purpose of scenario analysis is to facilitate an understanding of the company's strategy in the context of strategic resilience. The specific wording of the TCFD requirement that the CSA is proposing to remove from its disclosure requirements is:

   > "Describe the resilience of the organization's strategy taking into consideration of different climate-related scenarios including a 2º Celsius or lower scenario".

   Given uncertainty in path and timing of the transition to a low-carbon economy and the interactions between transition and physical climate risks, scenario analysis is a means for reporting issuers to test the resilience of their strategy over the short, medium and long term.
   While we acknowledge that climate scenario analysis (and the inherent stress testing) is still in its early stages and is currently of limited comparability, consistency or decision usefulness for investors, we also recognize that data and methodologies are evolving rapidly.
   There is value to investors in knowing whether or not a company has undertaken scenario analysis or stress testing. Where a company has undertaken such analysis, disclosure with respect to the scenarios used, parameters tested and key assumptions made is useful to institutional investors as it provides them with significant insight into the rigour with which climate related risks and opportunities have been integrated into the company's oversight mechanisms, culture and operations.
   To be of more significant use for investors, issuers should further disclose how their strategy might change to address potential risks and opportunities revealed by the scenario analyses or stress tests.

The ISSB's Climate-related Disclosures Prototype provides an indication of the direction of travel for an emerging international standard, which includes mandatory scenario analysis[6]. We further note that asset owners and managers are starting to conduct scenario analysis and stress testing in evaluations of their own portfolios and investment decisions. If a company does not disclose how it is approaching strategic resilience, then there is a real risk that investors will fill in the blanks through other sources.

The emerging importance of transition plans

The accelerating shift toward aligning strategy with the transition to a low carbon economy and achieving net zero emissions by 2050 is shaping the assumptions used in scenario analysis[7]. As an increasing number of nations, companies and investors adopt and execute on net-zero transition plans, the likelihood and impact of transition risk will grow[8]. This underlines the importance for companies of undertaking analysis, in particular analysis that includes accelerated timelines for transition.

It further reinforces the need for companies to develop net-zero transition plans. Requirement to disclose net-zero plans is notably absent from the proposed rule-making. Disclosure of these transition plans, including how a company intends to deliver on its net zero (by 2050) and interim (by 2030, 2035, etc.) commitments and targets therein is decision-useful to investors in evaluating

[6] Technical Readiness Working Group, chaired by the IFRS Foundation, to provide recommendations to the International Sustainability Standards Board for Consideration, Climate-related Disclosures Prototype, November 3, 2021 at para 10 [hereinafter TRWG Climate-related Disclosure Prototype]. Also see the UK Department for Business, Energy & Industrial Strategy, Consultation response: Mandatory climate-related financial disclosures by publicly quoted companies, large private companies, and LLPs, October 2021, at page 14: in response to consultation feedback on proposed climate-related disclosure obligations, the UK government reconsidered its initial position excluding scenario analysis from the proposed climate-related disclosure regulations applicable broadly across the economy which includes public companies, LLPs and large private companies. In its response the UK government noted as follows: "Given the clear message from stakeholders on the importance of scenario analysis for the policy to meet our stated ambitions, and recurring theme of respondents proposing that qualitative scenario analysis would be an appropriate first step, our final regulations will include a requirement for in scope companies and LLPs to include an analysis of the resilience of the company's business model and strategy, taking into consideration different climate-related scenarios". The UK will also issue supplementary guidance confirming that qualitative assessments will be sufficient to meet the obligation.

[7] E.g. Canada passed the *Canadian Net-Zero Emissions Accountability Act* on June 29, 2021 which codifies Canada's commitment to set national targets to reduce GHG emissions with the goal of attaining net-zero emissions by 2050 and to set targets in five year intervals with the first targets to be achieved in 2030: Government of Canada, Environment and Climate Change Canada, New Release, Government of Canada legislates climate accountability with first net-zero emissions law, June 30, 2021. Also see in the UK context: HM Treasury, Guidance Fact Sheet: Net Zero-aligned Financial Centre, November 2, 2021.

[8] E.g. for the financial sector, the TCFD recommendation on portfolio alignment has been updated to reference article two of the 2015 Paris Agreement, which commits parties to "holding the increase in the global average temperature to well below 2^0C above pre-industrial levels and pursuing efforts to limit the temperature increase to 1.5^0C above pre-industrial levels": Taskforce on Climate-related Financial Disclosures Guidance on Metrics, Targets, and Transition Plans, October 2021, at footnote 15 [hereinafter TCFD October 2021 Guidance]. Also see, IPCC's Summary for Policymakers of IPCC Special Report on Global Warming of 1.5^0C approved by governments approved by governments' October 8, 2018 which states: "global net human-caused emissions of carbon dioxide (CO_2) would need to fall by about 45 percent from 2010 levels by 2030, reaching 'net zero' around 2050", at C. 1.

the credibility of a company's plan and in measuring progress towards stated targets over time[9]. Notably, in the ISSB climate-related disclosure prototype, the disclosure of transition plans is included as a required disclosure aligned with the TCFD's recommendation to describe the impact of significant climate-related risks and opportunities on the organization's business, strategy and financial planning[10]. We would recommend that the CSA Companion Policy be updated to incorporate an expectation of similar disclosure of transition plans under the pillar of "strategy" reporting. A lack of disclosure in this regard could potentially put Canadian capital markets out of step with global investor expectations reducing competitiveness and raising the cost of capital.

Forward looking information and "safe harbours"

Finally, the CSA proposed requirements do not include a 'safe harbour' for climate-related disclosures. The Companion Policy makes clear that the forward-looking information (FLI) disclosure regime requirements apply to material climate-related disclosures even if they are expected to occur or crystalize over the long term[11].
In its 2019 Final Report, the federally appointed Expert Panel on Sustainable Finance recommended that a legal task force should be adopted to explore "the viability of a safe harbour rule for climate-related financial disclosures made in good faith and with due process"[12]. The stated purpose of the safe harbour would be to offer directors and officers of reporting issuers 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. The purported benefit to investors would be enhanced, as opposed to boilerplate, disclosures as climate-related information best practices and understanding continue to develop over time[13]. The Ontario Capital Markets Modernization Taskforce also floated the idea of such a safe harbour provision in its 2020 consultation, and CCGG supported this proposal in its response to the Taskforce[14].

[9] In May 2021, the Canadian government established the Sustainable Finance Action Council to support the implementation of sustainable finance practices in Canada's financial sector and across the broader economy. Its goal is to "help accelerate movement of private capital in support of the Government of Canada's climate goals, in particular: to support the achievement of Canada's enhanced 2030 target; to transition to a net-zero emissions economy by 2050; and, to ensure climate resilience and adaptation throughout Canada". Its mandate includes making recommendations related to climate-related disclosures (aligned with the TCFD); improved access to data and analytics; and common standards for sustainable and low carbon investments. Government of Canada, Department of Finance Canada, Sustainable Finance.

[10] TRWG Climate-related Disclosure Prototype, surpa note 6 at para 5(c) which incorporates by reference specific disclosures related to transition plans detailed at para 8.

[11] Proposed NI 51-107, supra note 2, at page 30.

[12] Final Report of the Expert Panel on Sustainable Finance: Mobilizing Finance for Sustainable Growth, Her Majesty the Queen in Right of Canada, as represented by the Minister of Environment and Climate Change, 2019 at page 21 Recommendation 6.2(ii) [hereinafter, the Expert Panel].

[13] Ibid., at 19.

[14] Note that the Taskforce did not include a safe harbor recommendation in its final report, see Capital Markets Modernization Taskforce: Fi3nal Report January 2021 (Government of Ontario), Recommendation 41; also of note, while the US Securities Exchange Commission did not include questions related to safe harbours in its 2021 request for public input on climate related disclosures, this issue was raised by commenters, both those in favour and those against, and is under consideration by the SEC as part of its ongoing work on climate related disclosures:

Climate science and climate-related accounting and disclosure systems are evolving in real-time. Matters that appear material now might later be determined not to be material, or conversely matters may turn out to be more material than originally disclosed. As such, we believe that a specific safe harbour provision should be adopted for climate-related disclosures. The safe harbour provision will encourage issuers to provide more detail on risks and opportunities and avoid reducing disclosures to "boilerplate" messages that are safer, legally, but provide little information to investors.

Unlike current protections for "Forward-Looking Financial Information" in National Instrument 51-102[15], we propose safe harbour provisions for climate-related disclosures that would not be confined only to forward-looking information but would cover all required climate-related reporting (and notably scenario analysis and Scope 3 emissions). We also believe that this will provide comfort to issuers' management and board of directors resulting in disclosure regarding their company to be more specific on ESG risks and opportunities and avoiding the "boilerplate" messages.

Accordingly, we recommend that the CSA also amend section 4A.3 of National Instrument 51-102 to provide a temporary safe harbour for climate-related disclosures as follows:

1. A reporting issuer that discloses material climate-related information must include disclosure that
    a. cautions users of the climate-related information that actual results may vary in the future due to refinements in metrics to measure risks and opportunities and identifies material risk factors that could cause results to differ materially from the reported ESG information;
    b. states the material factors or assumptions used to develop the climate-related information; and
    c. describes the reporting issuer's policy for updating climate-related information.
2. Climate-related outlook information that is based on assumptions that are reasonable in the circumstances must, without limitation,
    a. be limited to a period for which the information in the climate-related outlook can be reasonably reported or be estimated; and
    b. use the accounting policies the reporting issuer expects to use to prepare its historical financial statements for the period covered.

C. Matthews, SEC's Gensler promises new climate risk rules by year end; stays mum on company liability, July 28, 2021, Morningstar Marketwatch

[15] See section 4A of NI 51-102 at https://www.osc.gov.on.ca/documents/en/Securities-Category5/rule_20111031_51-102_unofficial-consolidation-post-ifrs.pdf

3. A reporting issuer that discloses climate-related information must include disclosure that states the date management approved the climate-related information.

We believe that implementing a safe harbour provision in this manner would address concerns about forward looking information. As noted above, the effectiveness of the safe harbour and whether or not it is still required as standards, data and methodologies supporting climate disclosures mature over time should be reassessed by the CSA during its reviews of the Proposed NI 51-107.

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?**

      No. The TCFD recommends Scope 1 and 2 disclosure and Scope 3, where appropriate.

      TCFD recently updated its 2021 annex to indicate that all organizations should disclose absolute Scope 1 and Scope 2 GHG emissions independent of a materiality assessment. The disclosure of Scope 3 GHG emissions is subject to materiality; however, the Task Force encourages organizations to disclose such emissions[16]. Organizations should determine materiality for climate-related metrics consistent with how they determine the materiality of other information included in their financial filings.
      There should not be an option for issuers to adopt an across the board 'comply or explain' approach to Scope 1, 2 and 3 GHG emissions disclosures. This information is becoming increasingly important to investors as it provides a baseline for how the organization is managing climate risks and opportunities.

   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?**

      Is this approach appropriate?
      No. Mandatory disclosure of only Scope 1 is out of step with the TCFD's most recent guidance. Instead, issuers should be required to disclose Scope 1 and Scope 2 GHG emissions, and Scope 3 where material.
      It is agreed that climate change is a systemic risk to economies and communities. For investors to make more informed decisions, all issuers should be required to disclose both their Scope 1 and Scope 2 GHG emissions annually.

[16] TCFD October 2021 Guidance, supra note 8, at page 15.

We recognize that Scope 3 emissions present more of a challenge. Issuers should be required to disclose Scope 3 GHG emissions if the issuer deems them to be material, or the issuer's reasons for not disclosing this information[17].

Should disclosure of Scope 1 GHG emissions only be required where such information is material?

No. Issuers must be required to disclose, at a minimum, Scope 1 and Scope 2 GHG emissions.

It is not practical or helpful to make only material Scope 1 GHG emissions disclosure mandatory. This would put Canadian issuers behind what is happening in other markets. It would also impact the credibility of the overall Canadian economy in terms of the global transition to net zero.

The TCFD recommends that all organizations consider disclosing Scope 3 emissions using the GHG Protocol. There is recognition that financial organizations may have challenges with quantification, but they are encouraged to provide quantitative and qualitative information and to disclose the methodologies and data used.

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

Disclosure of Scope 2 emissions should be mandatory.

We recognize that Scope 3 emissions disclosures are more complex and methodologies are not yet mature. A growing body of research shows that in certain sectors, Scope 3 GHG emissions can account for several times the impact of a company's Scope 1 and Scope 2 GHG emissions. Disclosure of Scope 3 GHG emissions are therefore a critical aspect of understanding climate-related risks and opportunities as highlighted by the TCFD and ISSB.

As noted above, issuers should be required to disclose Scope 3 GHG emissions if the issuer deems them to be material or the issuer's reasons for not disclosing this information.

Further, the GHG Protocol Scope 3 Standard notes that "while a company has control over its direct emissions, it has influence over its indirect emissions". Following the adage "what gets measured gets managed", requiring material Scope 3 disclosures on a comply or explain basis facilitates investor insight into the degree to which Scope 3 emissions are deemed to be material by an issuer, and how the issuer is factoring such emissions into its climate strategy and operational resilience.

d. For those issuers who are already required to report GHG emissions under existing federal or provincial legislation, would the requirement in the Proposed Instrument to include GHG emissions in the issuer's AIF or annual MD&A (if an issuer elects to disclose

[17] Science Based Targets, SBTi Criteria and Recommendations TWG-INF-002, V. 5.0 October 2021 which recommends that if a company's relevant scope 3 emissions are 40% or more of total Scope 1, 2 and 3 emissions, a Scope 3 target is required at C4.

these emissions) present a timing challenge given the respective filing deadlines? If so, what is the best way to address this timing challenge? [No CCGG response]

6. **The Proposed Instrument contemplates that those issuers providing 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 Proposed Policy). 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?**

    Yes. A core objective of mandatory climate-related disclosure is to provide comparable data. As such, it is in the best interests of all actors to utilize a consistent, mandated standard.

    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?**

    The GHG Protocol is the most widely used methodology and enjoys strong support across all stakeholders.
    The proposed disclosures would permit issuers to disclose in accordance with GHG Protocol or a comparable disclosure standard provided that if they elect to disclose using a different standard they would also have to explain how the standard used is comparable to the GHG Protocol. In our view, issuers should not be permitted to employ other alternative reporting standards as this would undermine the objective of having consistent and comparable data.

    c. **Are there other reporting standards that address the disclosure needs of users or the different circumstances of issuers across multiple industries and should they be specifically identified as suitable methodologies?**

    Other methodologies such as the Partnership for Carbon Accounting Financials (PCAF) standard builds on the GHG Protocol Scope 3 accounting rules in its methodology. PCAF applies to financial institutions reporting on financed emissions.

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, there should be some form of assurance on GHG emissions reporting. Independent assurance on the accuracy, completeness and consistency of GHG emissions data would be beneficial to both internal decision-making and for investors and other external stakeholders[18].

[18] The CSA may wish to satisfy itself that there will be sufficient capacity within the audit/assurance community to satisfy additional requirements as they are phased in.

At the very least it should be recommended as best practice for Scope 1 and Scope 2 GHG emissions in sectors where Scope 1 and 2 are material.

8. **The Proposed Instrument permits an issuer to incorporate GHG disclosure by reference to another document. Is this appropriate? Should this be expanded to include other disclosure requirements of the Proposed Instrument?**

   No. All required reporting should be in one place and in the regulated filings, such that it is consistent and easy for investors to find. Including it in the regulated filings, such as the MD&A, also provides a degree of assurance that there is appropriate executive and/or board level oversight of the disclosure.

Usefulness and benefits of disclosures contemplated by the Proposed Instrument

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?**

   Climate-related disclosures are material inputs into how investors assess and value companies in the market-place. Investors need this information to make informed investment decisions. Consistent and comparable disclosures that facilitate benchmarking, both against industry peers and sector decarbonization trajectories, is most important for investors' investment and voting decisions. The CSA's proposed approach to align climate-related disclosures with the TCFD Framework is consistent with this goal.
   Other information that is decision-useful includes: absolute GHG emissions (Scope 1, Scope 2 and Scope 3, where material); historical reporting of emissions to facilitate benchmarking of progress against targets over time and as against industry peers.
   Increasingly there is a focus on disclosure of net-zero transition plans and interim targets as core information needed by investors (for more detail in this regard see our response to Q.4 above and the TCFD's specific guidance on the elements of a transition plan[19]).
   Information about the integration of climate-related metrics into executive remuneration and board oversight of incentives would also be useful[20].

10. **What are the anticipated benefits associated with providing the disclosures contemplated by the Proposed Instrument? How would the Proposed Instrument enhance the current level of climate-related disclosures provided by reporting issuers in Canada?**

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[19] TCFD October 2021 Guidance, supra note 8, at pages 39-44, and with specific reference to the Transition Plan Elements at page 42 which highlight the following plan elements aligned with the governance pillar of the TCFD: approval, oversight, accountability, incentives, reporting, review, transparency and assurance.
[20] TRWG Climate-related Disclosure Prototype, surpa note 6 at para 4(f); and TCFD October 2021 Guidance, supra note 8, under the heading Metrics and Targets S.13(g) remuneration. S.13 of the TCFD October 2021 Guidance also identifies remuneration as a cross-industry metric; other cross-industry metrics identified by the TCFD include: GHG emissions; transition risks; physical risks; climate-related opportunities; capital deployment; and internal carbon prices.

Investors need comparability across issuers, which requires all issuers to disclose consistent information in a consistent place.
Requiring issuer disclosure with the TCFD Framework also brings Canada's capital markets forward in a way that is aligned with global developments. Benefits to issuers may include reduced costs of capital and increased access to institutional investors. Benefits to institutional investors include the ability to integrate disclosures into their investment analysis more easily (potentially without having to rely on external data sources) and as noted above the ability to facilitate benchmarking, both against industry peers and with respect to sector decarbonization trajectories.

Costs and challenges of disclosures contemplated by the Proposed Instrument?

11. What are the anticipated costs and challenges associated with providing the disclosures contemplated by the Proposed Instrument? [No CCGG response: in our view question directed at issuers]

12. Do the costs and challenges vary among the four core TCFD recommendations related to governance, strategy, risk management, and metrics and targets? For example, are some of the disclosures more (or less) challenging to prepare? [No CCGG response: in our view question directed at issuers]

13. **The costs of obtaining and presenting new disclosures may be proportionally greater for venture issuers that may have scarce resources. Would more accommodations for venture issuers be needed? If so, what accommodations would address these concerns while still balancing the reasonable information needs of investors? Alternatively, should venture issuers be exempted from some or all of the requirements of the Proposed Instrument?**

    Venture issuers should not be exempted from the requirements of the Proposed Instrument. See response to Q. 17

Guidance on disclosure requirements

14. **We have provided guidance in the Proposed Policy on the disclosure required by the Proposed Instrument. Are there any other tools, guidance or data sources that would be helpful in preparing these disclosures that the Proposed Policy should refer to?**

    The CSA should closely follow the progression of the ISSB (which is in the process of integrating the Value Reporting Foundation (SASB and IIRC) and the CDSB). As Canada will play a leading role in the formation and work of the ISSB, with the establishment of a Montréal office to support the Germany-based Board, it is uniquely placed to both shape and align with the ISSB's work as it moves forward. The CSA should leverage this opportunity as much as possible to ensure that Canada's climate-related disclosure requirements remain globally relevant.
    It will also be important to align with global developments in the EU and especially in the US as the SEC moves forward with its planned rulemaking on climate-related disclosures.

We reiterate that the CSA should not wait for these developments to crystalize before moving forward but it should keep pace with them and integrate them as needed and as appropriate in future reviews and updates to the disclosure requirements (which, as we have already observed, we recommend initially occur more frequently as climate-related disclosure best practices, data and methodologies continue to mature).

Other tools, guidance or data sources that would be useful in preparing the disclosures are:

- The Prototype Climate-related Disclosures Requirements (IFRS.org)
- TCFD Guidance on Metrics, Targets and Transition Plans
- CDP for consistent and comparable reporting

15. **Does the guidance set out in the Proposed Policy sufficiently explain the interaction of the risk disclosure requirement in the Proposed Instrument with the existing risk disclosure requirements in NI 51-102? Prospectus Disclosure.**

    There is potential for confusion. Existing risk disclosure requirements are subject to a materiality threshold whereas the required risk management under TCFD is not and is focused on process rather than assessment of specific risks. Descriptions of specific climate related risks (and opportunities) identified and potential impacts on business are required under the strategy disclosures in respect of TCFD. We recommend this should be clarified.

16. **Form 41-101F1 Information Required in a Prospectus does not contain the climate-related disclosure requirements contemplated by the Proposed Instrument. Should an issuer be required to include the disclosure required by the Proposed Instrument in a long form prospectus? If so, at what point during the phased-in implementation of the Proposed Instrument should these disclosure requirements apply in the context of a long form prospectus?**

    Should an issuer be required to include the disclosure required by the Proposed Instrument in a long form prospectus?

    Yes. Issuers should be required to include the entirety of the disclosure required by the Proposed NI 51-107 in their long form prospectuses.

    If so, at what point during the phased-in implementation of the Proposed Instrument should these disclosure requirements apply in the context of a long form prospectus?

    To make the disclosures seamless and consistent, the disclosure included in long-form prospectuses should be aligned with the timing requirements for implementation for venture and non-venture issuers. Non-venture issuers should provide the required disclosure in prospectuses issued one year following the effective date. Venture issuers should include disclosures aligned with the timing set out in the phased approach recommended by CCGG in its response to Q. 17 below.

Phased-in implementation

17. **The Proposed Instrument contemplates a phased-in transition of the disclosure requirements, with non-venture issuers subject to a one-year transition phase and venture issuers subject to a three-year transition phase. Assuming the Proposed Instrument comes into force December 31, 2022 and the issuer has a December 31 year-end, these disclosures would be included in annual filings due in 2024 and 2026 for non-venture issuers and venture issuers, respectively.**

    General Comments:

    We agree, in principle, with a phased-in transition of the disclosures based on the size/sophistication of the reporting issuer and the nature and complexity of the disclosure.
    We agree with the proposal that non-venture issuers should be required to achieve full implementation within one year of the effective date.
    We do not agree with the three-year transition period for venture issuers as described in the Proposed NI 51-107. The proposed approach of allowing a three-year period before venture issuers are required to make any disclosures creates too long of a gap where no information from this group is mandated to be made available to investors. We would recommend that governance and risk management disclosures should be required from venture issuers within one year of the effective date with the effect that all issuers, both venture and non-venture, would be disclosing under these pillars at the same time. These two disclosures are foundational to pivoting the board and management toward integrating climate related risks and opportunities into a company's oversight, strategy and business planning. They are also not contingent on materiality analysis. Other disclosures should be gradually phased in for venture issuers over a four-year period as set out in more detail below.

    a. **Would the transition provisions in the Proposed Instrument provide reporting issuers with sufficient time to review the Proposed Instrument and prepare and file the required disclosures?**

       As noted above, we support the proposed implementation time frame for non-venture issuers. For venture issuers we would support a slightly longer time frame for full implementation contingent on the provision of incremental disclosures sooner.
       TCFD first published its recommendations in 2017. Two years have passed since the CSA issued guidance on climate risk disclosure expectations which drew on the physical and transition risk recommendations of the TCFD[21]. CCGG announced its public support for the TCFD in June 2020. More than a year has passed since the last consultation on climate-aligned disclosure was conducted by the Ontario Capital Markets Modernization Taskforce and almost a year has passed since that Taskforce made its final recommendations in January 2021. The Ontario government directed the OSC to work on ESG disclosure rules in its March 2021 budget. The US SEC has indicated it is moving

[21] Canadian Securities Administrators, CSA Staff Notice 51-358 *Reporting of Climate Change-related Risks,* August 1, 2019.

forward with climate-related disclosures and held a preliminary consultation in the spring of 2021 that asked questions related to alignment with external frameworks[22].

The writing has been on the wall for a significant period of time that climate-related disclosures would be forthcoming and that disclosures would likely draw heavily on the TCFD framework.

Larger more sophisticated public companies are already making some climate-related disclosures including with respect to greenhouse gas emissions[23].

We recognize that smaller public companies with less resources may require additional time to fully adopt the proposed climate-related disclosure regime. The Proposed Instrument, however, does not encourage venture issuers to implement the disclosure requirements in an incremental and iterative manner wherein they can build on work year over year. Therefore, we do not agree with the CSA's proposed approach with respect to venture issuers.

Proposed alternate approach for venture issuers:

For venture issuers, we recommend that the CSA revisit and adapt the phased approach outlined by the 2019 Expert Panel on Sustainable Finance, which broke down implementation requirements by market cap and complexity such that Phase One encompasses less-complex aspects of the TCFD aligned disclosures and would be achieved sooner whereas Phase Two tackles the more complex aspects of reporting with a longer time to implement[24].

In addition to the phased approach generally, as noted above, we would further recommend that governance and risk management disclosures be required for venture issuers within one year of the effective date of the Proposed NI 51-107. These pillars of disclosure are not contingent on materiality assessments and are the building blocks required for companies to progress toward other required components of the proposed disclosure.

b. **Does the phased-in implementation based on non-venture or venture status address the concerns, if any, regarding the challenges and costs associated with providing the disclosures contemplated by the Proposed Instrument, particularly for venture issuers? If not, how could these concerns be addressed?**

As noted above we do not agree with the proposed three-year delayed implementation for venture issuers.

We recommend the following approach to phasing in disclosure for venture and non-venture issuers:

- **Non-venture**: agree with CSA proposal of one year implementation period for full compliance with all four pillars of TCFD;
- **Venture**: four-year phased in approach to give full compliance with Proposed NI 51-107 with expectation of requiring some disclosures sooner and requiring incremental

[22] Acting Chair Allison Herren Lee, Statement: Public Input Welcomed on Climate Change Disclosures, March 15, 2021, US Securities and Exchange Commission.
[23] S. Cleary & A. Hakes, Assessing Current Canadian Corporate Performance on GHG Emissions, Disclosures and Target Setting, April 2022, Smith School of Business: Queens University.
[24] Expert Panel, supra note 12, at page 16.

disclosures with increasing complexity over time as recommended in Phases One and Two of the Expert Panel: e.g. assuming December 31, 2022 effective date:

- Governance and Risk Management Disclosures: Within one year of effective date (reporting year 2023 published in 2024);
- Phase One: Within two years (reporting year 2024 published in 2025); and
- Phase Two: Within four years (reporting year 2026 published 2027).

Canada needs to be competitive on a global scale. As a resource-based economy, our companies need access to a global, diversified investor base. On climate-related matters, demonstrating how Canadian companies are managing climate-related risks and impacts will be critical to success. The direction of travel is clear on this and there is an opportunity for Canadian companies to demonstrate leadership in this area, but that won't happen by taking incremental steps that will be quickly and easily leapfrogged in a very short timeframe.

Stakeholder expectations are moving faster than the Canadian policy and regulatory response, increasing the risk to issuers of increased costs of capital arising from the informational void.

We are of the view that the approach recommended by the CSA will be resource intensive for venture issuers because it is not a phased-in implementation, rather it is a delayed reporting requirement that creates the expectation that venture issuers will have complete reporting under all four pillars after three years. This has the potential to create a heavily resource intensive "compliance crunch" in year three rather than a smooth ramp up that would allow a more efficient allocation of time and resources as expertise within the company grows. This was the intended process for TCFD and why it is colloquially described as a "journey".

Additionally, from a resource perspective, our recommendation to require less onerous governance, risk management and other Phase One aligned disclosure sooner, should not be intensive, as we are asking about how they govern and manage climate change. This may not necessarily mean dedicated resource, especially if the issuer is small and less complex.

Future ESG considerations

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 sustainability topics to be considered in the future. What broader sustainability or ESG topics should be prioritized for the future.**

    Investors need consistent, comparable and relevant information on environmental, social and governance risks that are industry-specific and financially material to a company's operations. Some ESG issues, notably climate change, are systemic and have the potential to impact all businesses in varying degrees. Other issues are industry or sector specific.

As noted above, CCGG is of the view that SASB along with TCFD are good models for sustainability disclosure. The Sustainability Accounting Standards Board (SASB) has developed 77 industry-specific standards that outline and provide guidance for each industry on the minimum set of likely financially-material sustainability topics and metrics that companies ought to regularly disclose[25]. Their rapid and global adoption is due in part to their emphasis on financial materiality and industry-specific information related to risks and opportunities most likely to affect a company's financial condition (*i.e.*, its balance sheet), operating performance (*i.e.*, its income statement), or risk profile (*i.e.*, its market valuation and costs of capital) in the near, medium or long term. The SASB framework also allows for the issuer to determine the material industry-specific metrics, given its unique circumstances.

During 2021, SASB merged with the IIRC to create the Value Reporting Foundation. In November 2021, it was announced that the Value Reporting Foundation along with the Carbon Disclosure Standards Board would be rolled into the IFRS as part of the establishment of the new ISSB. At the same time the Technical Readiness Working Group (TRWG), chaired by the IFRS Foundation released a summary of its programme of work along with two sustainability prototypes: one focused on climate disclosures (as referred to elsewhere in this submission) and the other on general requirements for disclosure for sustainability related financial information.

These documents and the approach taken therein are instructive to the CSA as it works through how to expand sustainability reporting beyond climate change-related disclosures. The approach taken by the TRWG, similar to the CSA, is to follow a "climate first" approach to disclosure while simultaneously providing guidance as to general , disclosure requirements relevant to material sustainability issues and signalling its intention to work on identifying other relevant systemic ESG issues that have a "pervasive relevance for enterprise value across entities regardless of their industry and therefore result in comparable market-wide disclosures across industries on a given theme ("thematic requirements")[26].

While the prototypes are still nascent, and we are not purporting to comment on their substantive content in this submission, we agree with the approach: climate first, general guidance on ESG disclosures followed by specific guidance on cross-cutting thematic requirements.

With respect to the general requirements for sustainability disclosure guidance, the direction of travel indicated in the ISSB's prototype leverages the application of established global frameworks such as SASB when making determinations as to material sustainability disclosures in the absence

[25] The SASB standards were released in 2018 following six years of rigorous research and consultation with investors, companies and subject matter experts (https://www.sasb.org/standards-overview/)

[26] Technical Readiness Working Group, chaired by the IFRS Foundation, to provide recommendations to the International Sustainability Standards Board for Consideration, Summary of the Technical Readiness Working Group's Programme of Work, November 3, 2021, at page 9.

of a specific or thematic standard[27]. In addition, it aligns disclosure with the four pillars of TCFD: governance, risk management, strategy and metrics and targets.

This approach corresponds to CCGG's long-standing view that mandatory disclosure of material ESG information should also be aligned with the TCFD framework. Whereas SASB lays out the material ESG issues and potential metrics by sector relevance, TCFD provides a framework to holistically assess governance, strategy, and risk management. Importantly, the TCFD provides a forward-looking component through the discussion and disclosure on scenario analysis, and the framework can also be used in conjunction with the SASB standards to identify relevant reporting metrics that are industry specific.

The ISSB prototype is also consistent with our prior recommendations that alignment with both SASB and TCFD does not absolve companies of the responsibility to determine for themselves what their material risks are, nor should it be a restriction on what a company decides to report on. Investors need to understand how a company is identifying, measuring and managing its material ESG risks and opportunities in order to properly assess its value over the long-term. In other words, the process a company utilizes to determine what information is material enough to disclose is also a critical piece of information for investors. Until specific ISSB standards are developed, SASB standards can help companies and investors identify and more fully understand financially-material sustainability risks and opportunities.

While each company's circumstances may differ, the board of directors and management should be accountable for assessing the long-term impact of ESG risks and opportunities on the company's operations. This materiality assessment and discussion on the methodology used to perform such an assessment should be a part of disclosure requirements. This is already common practice in the Canadian market and should be mandated as part of any ESG disclosures.

With respect to specific thematic issues, we encourage the CSA to continue to align its work in this regard with global disclosures as well as domestically relevant topics. CCGG has identified a number of ESG topics relevant to its governance focused mandate.

We note that the SEC has announced an intention for specific rule making on human capital management and SASB has been working on a human capital management framework. Canada has begun federal level regulatory consultations in support of new statutory disclosures related to employee, retiree and pensioner well-being[28]. We further note that there is increasing global and domestic focus on the diversity of boards and at the executive level (which is the subject of a separate and ongoing CSA consultation). Finally, in the Canadian context the issue of Indigenous

[27] Technical Readiness Working Group, chaired by the IFRS Foundation, to provide recommendations to the International Sustainability Standards Board for Consideration, General Requirements for Disclosure of Sustainability-related Financial Information Prototype, November 3, 2021, at page 73.
[28] CCGG, March 31, 2021 Submission to Corporations Canada consultation on regulatory proposals – Bill C-97 An Act to implement certain provisions of the budget tabled in Parliament on March 19, 2019 and other measures.

reconciliation and Call to Action 92 of the Truth and Reconciliation Commission of Canada is an important ESG consideration for investors and companies[29].

CONCLUSION

We thank you again for the opportunity to provide you with our comments. If you have any questions regarding the above, please feel free to contact our Executive Director, Catherine McCall, [redacted] or our Director of Policy Development, Sarah Neville [redacted] [redacted].

Yours truly,

[redacted]

Marcia Moffat
Chair, Canadian Coalition for Good Governance

[29] Truth and Reconciliation Commission of Canada, Truth and Reconciliation Commission of Canada: Calls to Action, 2015.

CCGG MEMBERS 2022

- Alberta Investment Management Corporation (AIMCo)
- Alberta Teachers' Retirement Fund (ATRF)
- Archdiocese of Toronto
- BlackRock Asset Management Canada Limited
- BMO Global Asset Management Inc.
- Burgundy Asset Management Ltd.
- Caisse de dépot et placement du Québec
- Canada Pension Plan Investment Board (CPPIB)
- Canada Post Corporation Registered Pension Plan
- Capital Group Canada
- CIBC Asset Management Inc.
- Colleges of Applied Arts and Technology Pension Plan (CAAT)
- Connor, Clark & Lunn Investment Management Ltd.
- Desjardins Global Asset Management
- Fiera Capital Corporation
- Forthlane Partners Inc.
- Fondation Lucie et André Chagnon
- Franklin Templeton Investments Corp.
- Galibier Capital Management Ltd.
- Healthcare of Ontario Pension Plan (HOOPP)
- Hillsdale Investment Management Inc.
- IGM Financial Inc.
- Investment Management Corporation of Ontario (IMCO)
- Industrial Alliance Investment Management Inc.
- Jarislowsky Fraser Limited
- Leith Wheeler Investment Counsel Ltd.
- Letko, Brousseau & Associates Inc.
- Lincluden Investment Management Limited
- Manulife Investment Management Limited
- NAV Canada Pension Plan
- Northwest & Ethical Investments L.P. (NEI Investments)
- Ontario Municipal Employee Retirement System (OMERS)
- Ontario Teachers' Pension Plan (OTPP)
- OPSEU Pension Trust
- PCJ Investment Counsel Ltd.
- Pension Plan of the United Church of Canada Pension Fund
- Public Sector Pension Investment Board (PSP Investments)
- QV Investors Inc.
- RBC Global Asset Management Inc.
- Régimes de retraite de la Société de transport de Montréal (STM)
- RPIA
- Scotia Global Asset Management
- Sionna Investment Managers Inc.
- SLC Management Canada
- State Street Global Advisors, Ltd. (SSgA)
- Summerhill Capital Management Inc.
- TD Asset Management Inc.
- Teachers’ Pension Plan Corporation of Newfoundland and Labrador
- Teachers' Retirement Allowances Fund
- UBC Investment Management Trust Inc.
- University of Toronto Asset Management Corporation (UTAM)
- Vestcor Inc.
- Workers' Compensation Board - Alberta
- York University Pension Fund