

February 16, 2022

Attn:

Alberta Securities Commission
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

The Secretary
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To whom it may concern,

The David Suzuki Foundation is writing to provide commentary on the Proposed National Instrument 51-107 *Disclosure of Climate-related Matters*. The David Suzuki Foundation is a national, bilingual non-profit organization working to conserve and protect the natural environment and help create a sustainable Canada through evidence-based research, education and policy analysis. DSF has been active in providing technical support for federal and provincial policy-makers to ensure that stakeholders across multiple sectors understand the importance of protecting and managing natural assets for a more resilient future.

Companies and capital providers will have direct implications for the risks and required governance over natural assets and strategic management to ensure sustainability. We are pleased that the proposed National Instrument is closely aligned with Taskforce on Climate-related Financial Disclosures' recommendations around four core elements: governance, strategy, risk management and metrics and targets. In light of the questions listed under Part 10 of the CSA Notice pertaining to Instrument 51-107, DSF would like to emphasise that more effective climate-related disclosures could promote more informed investment, credit and insurance underwriting decisions.

Given the urgency of the climate crisis, investors need to be more informed of the relationship between shareholder returns on investment and societal resilience. We therefore would like to provide a rationale on two main items:

- 1. Mandatory reporting requirement for all issuers:** We urge the CSA to ensure mandatory reporting from both non-venture and venture issuers and disclosure requirements and apply to annual filings in respect of the financial year ending December 31, 2023. The recommendations under the TCFD should disclose all climate-related risks and emissions without the need for a materiality assessment to avoid disclosing these details.
- 2. Need for standards, evaluative criteria and benchmarks:** As noted in our response to question four and five of CSA's notice Proposed NI 51-107 below, a scenario analysis should be an integrated aspect of climate-related disclosure requirements without an option to opt out. Further to this, the CSA should outline guidance and standards and evaluative criteria that would allow issuers to benchmark their performance and provide assurance that they will meet their climate targets under a 1.5C scenario regardless of a universal approach to scenario analysis at present. This should also capture the financial risks associated with climate-related impacts and ESG disclosures.

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Many companies see climate change as a long-term issue that does not hold importance for decisions being made today. This view is slowly changing, as more information is becoming more available and more explicit about the immediate financial impacts of climate change. As noted the UK Treasury's report on *The Economics of Biodiversity: The Dasgupta Review*,¹ our economies, livelihoods and well-being all depend on our most precious asset: nature.

The Task Force on Nature-related Financial Disclosures reported that US\$44 trillion, more than half of the world's economic output, is moderately or highly dependent on nature.² McKinsey & Co. recently reported that an estimated investment of \$9.2 trillion per year until 2050 is required for new infrastructure and systems to meet international climate goals.³ Recognition is growing among investors and in economic models that nature's flow of goods and services is finite.⁴

The UK Treasury's report on the *Economics of Biodiversity* "demonstrates that in order to judge whether economic development is sustainable, an inclusive measure of wealth is needed. By measuring our wealth in terms of all assets, including natural assets, 'inclusive wealth' provides a clear and coherent measure that corresponds directly with the well-being of current and future generations." This approach requires illuminating the risks and interactions of investments and natural assets. We therefore need all issuers should be subject to disclosure requirements in pursuant to the proposed National Instrument 51-107 independent of evidence of materiality.

As outlined, the climate-related disclosure requirements are intended to:

- improve issuer access to global capital markets by aligning Canadian disclosure standards with expectations of international investors;
- assist investors in making more informed investment decisions by enhancing climate-related disclosures;
- facilitate an "equal playing field" for all issuers through comparable and consistent disclosure; and

¹ HM Treasury. (2021). *The Economics of Biodiversity: The Dasgupta Review*. Available at: <https://www.gov.uk/government/publications/final-report-the-economics-of-biodiversity-the-dasgupta-review>

² TNFD. (2021). TNFD Nature in Scope. Available here: <https://tnfd.global/wp-content/uploads/2021/07/TNFD-Nature-in-Scope-2.pdf>

³ <https://www.mckinsey.com/business-functions/sustainability/our-insights/the-net-zero-transition-what-it-would-cost-what-it-could-bring#>

⁴ <https://www.gov.uk/government/publications/final-report-the-economics-of-biodiversity-the-dasgupta-review>

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- remove the costs associated with navigating and reporting to multiple disclosure frameworks as well as reducing market fragmentation.

DSF acknowledges CSA's support in addressing the above points. However, we feel that the proposed instrument should play a role in more explicitly defining the systemic climate risks associated with investments, including associated financial risk. There is presently no obligation to report on the hidden risks of nature loss for businesses. In 2020, the World Economic Forum published a report that noted three ways in which the destruction of biodiversity and ecosystems creates direct impacts and risks for businesses:⁵

1. Dependency of business on nature for operations, supply chain performance, real estate asset values, physical security and business continuity.
2. Direct and indirect impacts on business activities, such as losing customers or entire markets, legal action costs and adverse regulatory changes from nature loss.
3. Impacts of nature loss on society from societal disruptions where businesses operate, creating physical and market risks.

This means that capital invested in activities that are not viable over the longer term will be subject to higher risks of being less resilient and will reap few returns as we transition to a lower-carbon economy. This should also be a key priority for the National Instrument as it will directly implicate the financial risks and returns of investments. The four core elements of the TCFD recommendations were adopted into the proposed National Instrument; however, this would require consistency from all issuers, otherwise risking unreported concentrations of carbon-related assets. At the risk of creating more arbitrary and diverse reporting mechanisms, we urge the CSA to create a series of reporting criteria under each of the reporting categories from the TCFD's core element recommendations (governance, strategy, risk management and metrics).

DSF's responses to selected questions from Part 10 of CSA Notice on Proposed National Instrument 51-107:

Question 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?

⁵ https://www3.weforum.org/docs/WEF_New_Nature_Economy_Report_2020.pdf

DSF recommends both a requirement for a scenario analysis and a national standard for what would qualify as a legitimate scenario analysis. If the proposed instrument does not require the reporting issuer to provide a scenario analysis, the investor would lack a predictive element and insurance of activities being conducted by the issuer. A scenario analysis provides a point of reference to the level of actions that the issuer plans to undertake to mitigate risks on climate change and to show evidence that there was careful consideration of the impacts that the activities will have on the environment. As part of the proposed National Instrument, we feel that it is necessary to implement a set of standards to reflect minimum performance levels for issuers and evaluative criteria to ensure there is alignment with recommendations made by the TCFD. The mandatory requirement for a scenario analysis would also allow for issuers to benchmark impacts of ongoing or future activities to identified industry standards plan more effectively and capture a wider range of risks involved. More specifically, evidence via a scenario analysis would allow issuers to report on their plans for how they would act accordingly toward transition to a lower-carbon economy consistent with a 1.5 C or lower scenario.

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

- **The Proposed Instrument contemplates issuers having the option to disclose GHG emissions or explain why they have not done so. Is this approach appropriate?**
- **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?**
- **Should disclosure of Scope 2 GHG emissions and Scope 3 GHG emissions be mandatory?**

We recommend that issuers not be given the option to opt out of disclosing information related to GHG emissions and should report against Scopes 1, 2 and 3 emissions. This should not exclude reporting around climate-related governance and risk management. On a national level, reductions and offsets have resulted in double counting and inconsistencies and therefore misrepresent progress against our Paris Agreement targets and/or other targets made by private entities. Since the Paris Agreement, several companies have set “net zero” targets, which have been vague and inconsistent. As noted in Rogelj et al. (2021), plans to meet climate targets must clearly report on all GHG emissions and when these targets will be reached, whereby consistency, clarity and accuracy are essential (i.e., specific scope

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of the source of emissions and how they will utilise a combination of reductions and direct emissions removals).⁶

Issuers should abide by appropriate safeguards and ensure that emissions reductions and removals are equitable and adequate. Issuers should be required to include milestones and a long-term roadmap to implement the plan of achieving net zero alongside a scenario analysis and conditions on offsets. Several companies are relying on carbon offsets, leading to a growing voluntary offset carbon market. However, recent publications and public consultation of the U.S. SEC's comments on climate-related disclosures also pointed to the fact that there is no reporting mechanism to demonstrate that companies have conditions on their use, and uncertainties on whether there are clear plans for real reductions of GHG emissions.^{7,8,9} Reporting should show evidence that they are likely to meet milestone targets for direct emissions reductions.

We appreciate that some issuers are already required to disclose information under existing programs (e.g., under the federal GHG Reporting Program), but we would encourage all disclosures on Scopes 1, 2 and 3 to be mandatory. Facilities that emit 10 kilotonnes or more of GHGs units per year are required to report their emissions to Environment and Climate Change Canada.¹⁰ However, under CSA reporting requirements, all issuers should be subject to the same disclosure instruments to ensure consistency of standards and should not have the option to explain why they have not done so.

While we note that issuers are now providing more climate-related information in the CD filings and voluntary reports since the last review in 2017, review staff also noted that several disclosures were limited and lacked specificity. Consistent reporting would require the issuers to report against consistent reporting standards, which does not restrict the option of providing and/or citing additional information disclosed through other reporting vehicles for review. Guidance on Scope 3 emissions are becoming

⁶ Rogelj, J., Geden, O., Cowie, A., & Reisinger, A. (2021). Three ways to improve net-zero emissions targets. *Nature*, 591, 365–368.

⁷ <https://www.sec.gov/comments/climate-disclosure/cll12.htm>

⁸ Haya, B., Cullenward, D., Strong, A. L., Grubert, E., Heilmayr, R., Sivas, D. A., & Wara, M. (2020). Managing uncertainty in carbon offsets: insights from California's standardized approach. *Climate Policy*, 20(9), 1112–1126. <https://doi.org/10.1080/14693062.2020.1781035>

⁹ Haya, B. (2019). *Policy Brief: The California Air Resources Board's U.S. Forest offset protocol underestimates leakage*. 1–7. https://gspp.berkeley.edu/assets/uploads/research/pdf/Policy_Brief-US_Forest_Projects-Leakage-Haya_4.pdf

¹⁰ <https://open.canada.ca/data/en/dataset/a8ba14b7-7f23-462a-bdbb-83b0ef629823>

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more widely available with more tools to get cross-sector calculations.¹¹ International and national standards have been used at the project level and organization level, and are applicable for issuers. Both non-venture and venture issuers should be required to report all of Scopes 1, 2 and 3. The costs associated with these measurement and protocols will be far less than the costs accrued from a changing climate and biodiversity loss. Measures to prevent further loss will be much more cost-effective than paying for damages later.¹²

Question 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, climate-related disclosures should be monitored and verified by a third party to ensure that information is accurate and complete to a degree that the information can be reliably used to inform an interested investor or vote decision. As noted above, climate-related disclosures will impact other financial reporting documents, given increasing evidence and reporting showing that nature loss will affect capital markets and financial-related risks and returns. DSF recommends that the CSA develop a monitoring framework with a clear set of indicators to provide a good proxy of the actions that the issuers are undertaking to mitigate climate risks and reduce emissions.

Question 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?

While DSF is pleased to see efforts from the CSA to align its national instruments with the TCFD, we would also encourage reference to the emerging framework under the TNFD, which looks to disclose the systemic risks associated at the portfolio level and not solely at the organization or transaction level.¹³ DSF also encourages alignment with ESG disclosures and other financial reporting should be streamlined to effectively make environmental risks transparent and create reliable mechanisms for decision-making and voting. We note that as with climate-related reporting, ESG disclosures have remained inconsistent.

¹¹ <https://ghgprotocol.org/standards/scope-3-standard>

¹² https://assets.bbhub.io/company/sites/60/2020/10/TCFD_Booklet_FNL_Digital_March-2020.pdf

¹³ <https://tnfd.global/wp-content/uploads/2021/07/TNFD-%E2%80%93-Technical-Scope-3.pdf>

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A report published by the CFA Institute noted that mandatory disclosures, particularly in the interests of ESG investors, provide limited information on ESG-related risks and opportunities.¹⁴

The climate crisis presents an opportunity for a deeper look at the role of markets and regulating bodies that have the power to shift our approach to investments to bring about positive, long-term change. Recent national and global trends during the past two years of the COVID-19 global pandemic have revealed the failure of markets to prioritize issues around healthcare system capacity and ecosystem health. Despite investors' increased appetite for ESG,¹⁵ it has not been made sufficiently consistent, rigorous and mainstream to facilitate more meaningful change in the social equity and environmental impacts we need to address. Applying appropriate reporting requirements will allow us to see the short- and long-term trends of the flow of capital moving toward societal objectives and resiliency.

Sincerely,

Clarissa Samson
Nature-based Solutions Technical Lead Economist

¹⁴ <https://www.cfainstitute.org/-/media/documents/article/position-paper/esg-issues-in-investing-a-guide-for-investment-professionals.pdf>

¹⁵ <https://files.ontario.ca/books/mof-capital-markets-modernization-taskforce-final-report-en-2021-01-22-v2.pdf>

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