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Nova Scotia Securities Commission
Nunavut Securities Office
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CSA Request for Comment - Proposed National Instrument 51-107

Dear Secretary of the Ontario Securities Commission and Me Philippe Lebel:

We are pleased to provide our comments to the Canadian Securities Administrators (CSA) on the Proposed National Instrument (NI) 51-107, *Disclosure of Climate-related Matters* (the Proposed Instrument) and the related Proposed Companion Policy (the Proposed Policy).

Overall, we support the CSA's Proposed Instrument that will mandate climate-related disclosures for reporting issuers. We think the Proposed Instrument provides clarity to issuers on the information to be disclosed, and we believe it will drive greater consistency and comparability amongst issuers. We believe that the CSA has a significant role to play, both within Canada and internationally, in promoting climate-related disclosures that yield decision-useful information for investors.

With the recent announcement that Montreal will host an office that will be responsible for key functions of the new International Sustainability Standards Board (ISSB), it is clear Canada is recognized as a leader in sustainability governance.[1] In recent years, several climate-related reporting initiatives have emerged from various sources, resulting in a patchwork of approaches towards disclosure of climate-related information. While many of these reporting initiatives, including those of the Task Force on Climate-related Financial Disclosures (TCFD) have received support, there has been no consistent adoption of a single reporting framework in Canada. Improving the quality and consistency of disclosures, through mandatory climate-related disclosures, is a critical step to producing decision-useful information.

We believe that the quality of climate-related disclosures has been improving in Canada, driven by a rise in investor interest in environmental, social and governance (ESG) metrics. Aligning Canadian reporting issuers' disclosures with the recommendations of the TCFD will increase comparability of the disclosures, both domestically and internationally, as many other jurisdictions have already introduced mandatory climate-related disclosures based on the TCFD recommendations.

In 2019, when we undertook our Global Climate Risk Disclosures Barometer research, only France had legislated TCFD reporting. Since then, the UK, New Zealand and Japan have adopted disclosure legislation.[2] Our June 2021 report provides a global snapshot of the increasing corporate focus on climate-related risks and opportunities. The report indicates that disclosures have improved, driven by regulators mandating TCFD reporting and overall pressure from investors. Based on the results of this research, the proposed disclosures support increased consistency and decision-useful information in Canada, consistent with the changes observed internationally.

We have set out our detailed responses to the consultation questions below. In addition, we wish to highlight the following:

- **Alignment with international regulators and standard setters -** As the ISSB develops a comprehensive global baseline of high-quality sustainability disclosure standards, we encourage the CSA to monitor developments and align the Proposed Instrument with the standards of the ISSB. We are of the view that the disclosure requirements in Canada should remain consistent with the ISSB so Canadian reporting issuers remain competitive internationally. In addition, the United States Securities and Exchange Commission (SEC) is expected to move quickly in implementing disclosure rules to provide investors with consistent, comparable and reliable information on climate matters. Given there are approximately 230 Canadian companies that are listed on U.S stock exchanges[3], we encourage the CSA to consider alignment of disclosure requirements across both jurisdictions.

- **Mandatory disclosure of ESG information more broadly** – Although we understand and support the focus of the CSA's Proposed Instrument on climate-related disclosures, we believe that in the immediate future the CSA should consider the needs of investors for ESG information more broadly. Since reporting on ESG is a dynamic field, the choice of exact topics and the order in which they are addressed may evolve over time. One area where disclosures have begun to evolve more rapidly is social-related information. Investors are looking closely at diversity, in both the workforce and at the board level.

[1] IFRS - IFRS Foundation announces International Sustainability Standards Board, consolidation with CDSB and VRF, and publication of prototype disclosure requirements.

[2] Ernst & Young, Global Climate Risk Disclosure Barometer, If climate disclosures are improving, why isn't decarbonization accelerating? June 2021.

[3] Stock Market MBA, Canadian Companies that are listed on U.S. stock exchange.

Some stakeholders are interested in diversity across dimensions, including age and demographics, noting an interest in understanding how companies are managing a workforce that extends from millennials to baby boomers. At the board level, we have heard from investors that they want disclosure of the board's diversity across gender, race and ethnicity, and want to see more diverse directors brought into the boardroom and policies that encourage diverse director recruitment.[4]

- **Phased-implementation by industry sector as an option** – If the CSA believes that there could be significant near-term challenges to a broader implementation of climate-related disclosures, the CSA may wish to consider a phased in approach to mandatory climate-related disclosures by industry sector, in addition to a phase-in by non-venture and venture issuer status. The TCFD has identified financial industries, as well as certain non-financial industries, that are most affected by climate change and the transition to a lower-carbon economy ("priority industries").[5] Given the CSA is proposing climate-related disclosures consistent with the TCFD recommendations, we note that it may be beneficial to phase in mandatory disclosure by the priority industries identified. This approach would be consistent with the roadmap towards mandatory climate-related disclosures that is being proposed by the Singapore Exchange.[6]

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?***

   We have observed that the process for providing climate-related disclosures can initially be time consuming, costly and technically challenging due to the lack of established methodologies. To develop high quality governance processes around the identification of climate-related risks and opportunities, as well as the assessment of their impact on corporate strategy and financial performance, companies need cross-functional collaboration amongst departments, including finance, strategy, operations, public policy and risk management. Integrating information from all of these departments is a significant task and takes a substantial amount of time and money. Companies also need to consider developing processes and controls to ensure that the information being used to develop their disclosures is complete and accurate. Further, the translation of climate risks into financial risks is another area where we have observed challenges for issuers as methodologies and tools for doing so are still in their infancy.

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?***

   Refer to our response to question 6

[4] Ernst & Young, EY Center for Board Matters 2021 proxy season preview: What investors expect from the 2021 proxy season, January 2021.
[5] Task Force Climate-related Financial Disclosures, Implementing the Recommendations of the Task Force on Climate-related Disclosures, October 2021.
[6] Singapore Exchange, Climate and Diversity: The Way Forward, August 2021.

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?***

   Refer to our response to question 4.

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?***

   Developing and applying scenario analysis is complex and time consuming but the benefit of turning theory into tangible, actionable strategies is significant. In practice, performing an accurate risk or opportunity assessment would be difficult without some element of scenario analysis.

   As such, we believe scenario analysis should be required to be disclosed as it would enhance the competitiveness of Canadian companies internationally, given certain jurisdictions have already mandated disclosure of scenario analysis and the ISSB has included scenario analysis in its prototype climate-related disclosure standard.[7] However, we recognize that some companies may be more heavily impacted by mandatory disclosure of scenario analysis, resulting in potential administrative and cost burdens. We encourage the CSA to explore a phased-in approach and work with industry sector groups to develop requirement criteria for the disclosure of scenario analysis.

   To assist issuers and drive consistent application, we believe clear definitions and parameters for "scenario analysis" are needed. There is currently a large variation in approaches to scenario analysis and in the absence of detailed guidance, there is a risk of fragmentation in market practice. Further, acknowledging that the availability of resources to perform scenario analysis may be limited for some entities, the CSA may wish to consider establishing defined scenarios or providing guidance based on the nature and risk profile of the company.

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?***

   Given the risk climate change poses to companies, financial markets and the overall global economy, we do not support issuers having the option to disclose GHG emissions or explain why they have not done so (a comply or explain approach).

   - ***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?***

   We support mandatory disclosure of Scope 1 GHG emissions. However, we believe that Scope 1 and Scope 2 GHG emissions should be disclosed together, and therefore recommend the CSA mandate

[7] Summary of the Technical Readiness Working Group's Programme of Work, November 2021.

disclosure of both. Quantification of both Scope 1 and Scope 2 GHG emissions can be performed using established processes with known, standard methodologies. Further, these two scopes of GHG emissions are typically under the company's direct control or physically occur at its facilities and are relatively easily calculated based on key suppliers' input (e.g., suppliers of electricity).

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

Quantifying Scope 3 GHG emissions may not be straightforward, especially for companies with complex operations, value chains and company structures. There are several categories of Scope 3 GHG emissions up and down the company's value chain which may result in challenges in quantifying and disclosing Scope 3 GHG emissions, such as:

- **Data availability** – As Scope 3 GHG emissions are not under the direct control of the company, the difficulty in collecting the data on a timely basis can be a barrier to disclosure. Companies are often relying on data being provided by their suppliers and customers when quantifying Scope 3 GHG emissions.

- **Internal systems and resourcing** – Calculating Scope 3 GHG emissions may require a significant volume of data inputs and close coordination with suppliers to consolidate data for emissions calculations. It is unlikely that reporting issuers currently have robust internal systems to address the complexity around quantification of Scope 3 GHG emissions, which could lead to significant time and resource investment.

We recognize the importance of Scope 3 GHG emissions and the attention stakeholders are placing around the value chain as investor confidence is built off the reliability and consistency of disclosures. As such, we recommend the CSA explore mandatory disclosure of Scope 3 GHG emissions through a phased-in approach to be applied over time. The CSA may consider mandatory disclosure of Scope 3 GHG emissions for non-venture issuers for annual filings in respect of the financial year ending December 31, 2025. Venture issuers could follow with mandatory disclosure of Scope 3 GHG emissions for the financial year ending December 31, 2027. This provides both venture and non-venture issuers with two years post disclosure of the other TCFD elements, which we believe is adequate lead time to quantify Scope 3 emissions and present and disclose reliable information for investors.

► ***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 these emissions) present a timing challenge given the respective filing deadlines? If so, what is the best way to address this timing challenge?***

Financial data is collected continuously throughout the year and is available for reporting shortly after a company's year-end. GHG emissions data collection and compilation has not yet benefited from the same investment in process and controls and rigour that financial data has and is generally not available until several months after year end. For example, the typical GHG reporting under federal and provincial legislation covers a calendar year but is reported in May and June. Given this delay in timing, aligning an issuer's GHG emissions reporting with an issuer's MD&A and AIF filing will require changes to current process resulting in additional time and effort.

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 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.***

    - ***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?***
    - ***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?***
    - ***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?***

    We have responded to the three questions below.

    Based on our experience, we note that companies who are disclosing GHG emissions on a voluntary basis are predominantly quantifying Scope 1 and Scope 2 GHG emissions in accordance with the GHG Protocol or ISO 14064-1/2/3. Companies using guidance from the GHG Protocol (such as the Corporate Value Chain (Scope 3) Accounting and Reporting Standards) or other standards do find it more challenging to quantify Scope 3 GHG emissions.

    We support mandatory disclosure of Scope 1 and 2 emissions in accordance with the GHG Protocol, as we believe it is a widely used and accepted reporting standard. Further, we believe mandating the reporting standard will assist in achieving consistency and comparability of information.

    However, where an issuer has legal or regulatory reporting in another jurisdiction, the CSA may consider allowing the issuer flexibility to use those standards. The CSA may also consider requiring disclosure of how those standards compare with the GHG Protocol.

Other

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?***

    At this current time, most of the assurance over sustainability information is voluntary and those that are required to obtain assurance over their GHG emissions to comply with federal and provincial legislation are obtaining limited assurance. With the move towards global sustainability reporting standards, demand for independent assurance over sustainability information, including GHG emissions, will likely increase. We believe the type of assurance to be provided over GHG emissions and broader sustainability information should be driven by demand from investors, entities, and broader stakeholder groups. We recommend the CSA engage with the above-mentioned groups and the auditing profession to ensure its requirements are both operational and cost effective.

The professional auditing standards limit assurance to two distinct levels: reasonable assurance and limited assurance. Reasonable assurance is a high but not absolute level of assurance. A practitioner cannot provide absolute assurance, given the inherent limitations of the services rendered. Most of the evidence that the practitioner's conclusion is based on is persuasive rather than conclusive. The nature, timing and extent of procedures performed in a limited assurance engagement is limited, compared with that necessary in a reasonable assurance engagement, but is still planned to obtain a level of assurance that is, in the practitioner's professional judgment, meaningful.

Gathering of sufficient appropriate evidence in an assurance engagement is based on an assessment of risk and materiality to support the practitioner's conclusion. The procedures performed in a reasonable assurance engagement may include inquiry, confirmation, inspection of records or documents, inspection of tangible assets, observation, recalculation, re-performance, and/or analytical procedures. In a limited assurance engagement, procedures are primarily composed of inquiries of management and analytical procedures, which are less detailed than in a reasonable assurance engagement but are still based on an assessment of risk and materiality to support the practitioner's conclusion.

Additionally, if the CSA pursues mandatory assurance over GHG emissions and other sustainability information, then consideration should be given to such assurance in the context of statutory defense provisions (e.g., OSA s. 130(3)(c)). These provisions provide a defense from civil liability for directors, officers, or others with respect to a report, opinion or statement of an expert included in an offering document. Consistent with interim reviews, limited assurance does not result in the auditor expressing an opinion, and as such, it may be inappropriate for directors, officers and others to rely on a limited assurance auditor's report over GHG emissions as the report of an expert in discharge of their responsibilities.

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?***

Companies that currently provide GHG disclosures generally do so within Corporate Sustainability or ESG reports and/or federal and provincial legislated filings which are often prepared subsequent to an issuers' annual continuous disclosure filings. We are of the view that incorporating such disclosure by reference is appropriate, but we do not believe the entire Corporate Sustainability or ESG report should be subject to National Instrument 51-102, *Continuous Disclosure Requirements* (NI 51-102).

We believe that the needs of investors should drive decisions about when and how an issuer provides disclosures. Issuing the financial statements, MD&A and GHG emissions metrics and targets at the same time is preferrable, including incorporating by reference from one document to another as it eliminates duplication and streamlines disclosures. However, the core element of metrics and targets in the TCFD recommendations and the disclosure of GHG emissions may not be practicable to disclose within 90 days following a reporting issuer's year end. Based on experience with our own clients, quantifying GHG emissions can take a significant amount of time, requiring numerous inputs from various stakeholders within a company's value chain.

Overall, we support permitting incorporation of GHG disclosures by reference to another document; however, we believe there may be practical timing challenges as noted above and in our response to question 5.

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?

Our 2021 EY Global Institutional Investors Survey[8] explores the perspectives of more than 320 senior decision-makers at buy-side institutions around the world and identifies several themes as follows:

- Investors are putting significant and increasing emphasis on their portfolio exposure to climate changes, both the climate risks and the risks from the inevitable transition toward a net zero global economy.
- Better quality nonfinancial disclosures and a clearer regulatory landscape are important to realizing the potential of ESG performance, alongside more sophisticated data analytics capabilities.
- Investors are clear that globally consistent standards are likely to be important to improving the quality and transparency of corporate ESG reporting, with 89% of investors indicating they would like to see reporting of ESG performance measures against a set of globally consistent standards become mandatory requirements.

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?

Our view is that mandating climate-related disclosures in accordance with the TCFD recommendations is a step towards creating more comparable, specific and decision-useful information.

The current patchwork approach to climate-related disclosures has not led to sufficient quantity and quality of information for investors, regulators and other interested stakeholders. Mandating disclosures in accordance with the TCFD recommendations will provide meaningful change but quality disclosures take time. The anticipated benefits associated with providing the disclosures contemplated by the Proposed Instrument include:

- **Consistency and comparability –** Current voluntary disclosure of climate-related matters leads to the risk of selective reporting by issuers. By mandating minimum disclosure requirements, all issuers will need to include information around governance, strategy, risk management and some form of metric and target, driving consistency and harmonization in disclosures. Comparability demands consistency in the information being presented.

[8] Ernst & Young, Is your ESG data unlocking long-term value? November 2021.

- **Enhanced investor engagement –** Disclosures that are clear, comparable and consistent lead to decision-useful information and facilitates investor engagement.

- **Robust risk and opportunity assessment –** Current climate risk assessments are often limited to certain parts of the business and may only include qualitative analysis. The impact of physical and transition risks on products and services, supply chains and operations can materially affect operating costs and revenues. Assessing risks and opportunities posed by climate change may help organizations more accurately assess the impact of climate risk, including its impact on strategy.

- **Increased availability of climate-related information –** Mandatory disclosure improves information sharing, which may help entities in different and comparable industries and geographic regions develop better strategies for climate risk management, enterprise risk management in general and strategic investment and business model decisions.

Phasing approached

11. ***What are the anticipated costs and challenges associated with providing the disclosures contemplated by the Proposed Instrument?***

The anticipated costs and challenges associated with providing the disclosures contemplated by the Proposed Instrument are significant for all reporting issuers, however, some reporting issuers are further along in the journey to providing climate-related disclosures than others.

- **Data quality** – There is complexity in collecting data and system limitations that may have to be overcome before climate-related data can be obtained. There are also confidentiality concerns affecting a company's ability to provide relevant, specific and timely information as disclosures may compromise competitiveness, particularly for forward looking strategies and financial information.

- **Cost and time** – Adapting to new regulatory disclosure requirements can be costly and time-consuming, both for large organizations where data gathering can be a cumbersome process and in smaller organizations with limited budgets, resources and potentially less experience in reporting non-financial information.

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?***

Our 2021 EY Global Climate Risk Disclosure Barometer study indicates that across the TCFD elements, on average, companies reported better on governance compared to strategy and risk management. Targets and metrics were also higher, which may indicate that companies feel more comfortable disclosing what they are trying to achieve and less on how to get there, or perhaps there is a trend for companies looking to set aspirational targets in advance of having a clear pathway to achieve the goals.[9]

[9] Global Climate Risk Disclosure Barometer.

Based on our study, the costs and challenges of disclosing information for the four core TCFD recommendations do vary by core elements.

- **Governance** – We are of the view that quality disclosures are finally being seen for the core element of governance because the tone at the top is changing to a more climate conscious culture. Companies are educating their employees on the topic, and part of this is due to the high level of mandatory disclosures in other parts of the world.

- **Strategy and risk management** – There is difficulty in integrating climate risks into existing risk management processes. Time is needed for many companies to develop tools and methodologies to integrate climate-related risks and opportunities into mainstream processes and assess the impact of these risks and opportunities on their business, strategy and financial planning. At this stage, existing risk management and financial modelling tools are difficult to adapt to climate-related risks and opportunities. The costs of integrating new tools into existing processes is significant for reporting issuers. We are of the view that this may be a costly and challenging disclosure for reporting issuers, especially venture issuers who have limited resources and tend to have unsophisticated financial reporting systems. Quality disclosures in these two areas will take time.

- **Metrics and Targets** – Our study noted that the quantity of disclosures in the area of metrics and targets was higher than in prior years, most likely attributable to more regulators making TCFD reporting mandatory, pressure from investors and that the annual Carbon Disclosure Project response now incorporates TCFD recommendations.[10] Furthermore, consistent with our response to question 5, quantification of both Scope 1 and Scope 2 GHG emissions can be performed using established processes with known, standard methodologies. However, we do believe the disclosure and quantification of Scope 3 GHG emissions is a particularly costly and challenging area for companies and more lead time is needed before making disclosure mandatory.

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?***

The risk climate change poses to business and financial markets is present for both non-venture and venture issuers. We are of the view that presenting new disclosures on climate-related matters represents a challenge in terms of cost, time and effort for reporting issuers of all sizes. However, it is important to understand and respond to climate-related risks and seize opportunities to build a stronger global economy.

We do believe the Proposed Instrument accommodates venture issuers as it provides sufficient time for the development of disclosure for all four core elements of the TCFD recommendations. If the CSA considers additional phased implementation for Scope 3 GHG emissions and scenario analysis as discussed above, the extended timing for venture issuers should be commensurate with other aspects of the Proposed Instrument.

[10] Global Climate Risk Disclosure Barometer.

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?

We are of the view that many companies are still in the early stages of integrating climate risk and opportunities into their current risk assessment process and assessing the impact on their strategy. As a first step, education is critical, especially for smaller venture issuers who may have limited resources. The CSA could consider running education sessions and/or workshops at a sector level to allow for cross sharing of information and learning between reporting issuers within the same industry.

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?

Yes. We are of the view that the Proposed Policy sufficiently explains the interaction of the risk disclosure requirements with existing risk disclosure requirements in NI 51-102.

Prospectus Disclosure

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?

The objective of including information in a long form prospectus is to provide information concerning the issuer that an investor needs to make an informed investment decision. Our response to question 17 below indicates the CSA may wish to consider a phased-in approach by industry sector, in addition to a reporting issuer's status as a venture or non-venture issuer. We believe disclosures in a long form prospectus should have the same effective date as mandatory climate-related disclosures.

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.

- ***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?***

- ***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?

We have responded to the two questions below.

Phased-in approach by venture/non-venture issuer status and industry sector

Overall, we support a phased-in transition of the disclosure requirements based on non-venture and venture issuer status in the Proposed Instrument. In addition to the benefits discussed, we find this approach to be beneficial to smaller companies as it provides for more lead time for preparation. However, we believe the CSA could also consider a phased-in transition by industry sector as an option, consistent with the Singapore Exchange's proposed roadmap towards mandatory climate-related disclosure,[11] in addition to a transition based on non-venture or venture issuer status.

The TCFD has identified financial industries, as well as certain non-financial industries, that are most affected by climate change and the transition to a lower-carbon economy ("priority industries").[12] The TCFD has developed supplemental guidance for these priority industries. Given the CSA is proposing climate-related disclosures consistent with the TCFD recommendations, we note that it may be beneficial to phase in mandatory disclosure by the priority industries identified. For example, those financial and non-financial priority industries could be subject to mandatory disclosure first for annual filings in respect of the financial year ending December 31, 2023. The remaining industries could disclose for the financial year ending December 31, 2024.

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?

We agree with the CSAs comments to the IFRS Foundation's consultation paper, and believe that, ultimately, topics should cover a broader set of sustainability factors, such as economic, social, environmental and governance issues. Below are some broader ESG areas, among many, that may be considered:

- **Workforce diversity** – The EY Center for Board Matters 2021 proxy season survey identified workforce diversity in terms of gender, race and ethnicity as a focus of investors. Investors pointed out that to be meaningful, workforce diversity data must be supported by a narrative about the company' s human capital strategy and goals. Many said they will be looking closely at racial diversity, and some are interested in diversity across dimensions, including age demographics, noting interest in understanding how companies are managing a workforce that extends from millennials to baby boomers. At the board level, investors want disclosure of the board's diversity across gender, race and ethnicity, and to see more diverse directors brought into the boardroom and policies that

[11] Singapore Exchange, Climate and Diversity: The Way Forward, August 2021.
[12] Task Force Climate-related Financial Disclosures.

encourage diverse director recruitment.[13]

- **Water risks** – A recently published article by the World Economic Forum in August 2021, "We need to rethink ESG to ensure access to water and sanitation for all" indicated responsible investors are increasingly demanding water related disclosures, such as measures of how much companies rely on water in their values chain, the environmental and regulatory conditions where they operate, and internal governance around water management and risk mitigation. [14] Water management has been broken for some time before we even understood or felt the impacts of climate change. Water is undervalued, overallocated, lacks suitable access and is polluted at a global scale.

- **Cybersecurity –** JP Morgan Global Research, "Why is Cybersecurity Important to ESG Frameworks" took a closer look at the current cyber risks and why cybersecurity is fast becoming a core consideration in ESG framework. While it was once a technology issue, the exposure to customer's private information has made it a social concern. Cybersecurity and related risks are gaining attention as the global workforce pivoted to working from home through the COVID-19 pandemic. [15]

We appreciate the opportunity to comment on the Proposed Instrument. Please contact Massimo Marinelli (Managing Partner – Assurance) or Laney Doyle (Professional Practice Director) if you wish to discuss these or any other matters.

Yours sincerely

Chartered Professional Accountants
Licensed Public Accountants

[13] EY Center for Board Matters 2021 proxy season preview: What investors expect from the 2021 proxy season.
[14] World Economic Forum, We need to rethink ESG to ensure access to water and sanitation for all, August 2021.
[15] J.P. Morgan, Why is Cybsecurity Important to ESG Frameworks? August 2021.