Foyston, Gordon & Payne Inc.
INVESTMENT COUNSEL

February 23, 2022

Alberta Securities Commission
Autorité des marches 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

Delivered to:
The Secretary
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Corporate Secretary and Executive Director, Legal Affairs
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Re: Proposed Regulation 51-107 Disclosure of Climate-related Matters

Dear Mesdames/Sirs:

Thank you for allowing Foyston, Gordon & Payne Inc. to comment on the Proposed National Instrument 51-107 Disclosure of Climate-related Matters.

Over the past 40 years, Foyston, Gordon & Payne Inc. has been managing the investments for pensions, foundations, endowments, and high net worth individuals. It is our view that companies that effectively address Environmental, Social and Governance (ESG) issues tend to be more attractive long-term investments. ESG factors have, therefore, long been a component of our fundamental investment analysis, and by taking an active approach to integrating ESG into our decision-making process, we are improving risk management for our clients' portfolios.

We are providing comment to those issues most relevant to our clients:

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?

In general, we believe that reporting issuers that are members within the S&P/TSX Composite Index should have discussion and disclosure about climate scenarios, and related analysis that explains the potential impacts on a firm's overall operations and finances. Ideally, we'd prefer to see a harmonized scenario framework to allow for better comparability within an industry. We do believe that issuers of a certain minimum size (or index constituency) should be required to comply or explain why they have not done so.

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 believe that all members of the S&P/TSX Composite Index should have mandatory disclosure of Scope 1 and 2 emissions. We do not believe that Scope 3 emissions should be mandatory at this time, given the inherent difficulty of categorizing a Scope 3 emission on a consistent basis across issuers. There are many challenges with compiling Scope 3 data, including overall data quality. Hence, we would recommend that issuers disclose Scope 3 data only if they deem it material.

Question 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?**

A cornerstone of our investment process is doing both comparisons and analyses, within an industry, to determine both the quality and value of the industry and the sector's main public companies. Therefore, we strongly endorse any policy that facilitates company comparison using common metrics. We would support the use of the GHG Protocol.

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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?

We think issuers should have the choice of determining if they would like their GHG data audited. Ultimately, audited results could enhance the credibility of an issuer's disclosure on GHG reporting, but, we would advocate that issuers make their own choice, and disclose what choice they have made.

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?

At Foyston, Gordon & Payne, we believe the following data / information is relevant to our investment decision process:

- **Trend Emissions Data:**
  - Scope 1 and 2 emissions (and Scope 3 based on issuer preference) with at least a 5-year historical track record of data;
  - Plain language disclosure on methodology approach and changes that impact the materiality, quality and/or consistency of the data series; and
  - Consistent intra-industry efficiency ratio metrics to facilitate comparability.

- **Clear Climate Target(s) Disclosure:**
  - Both short-term and long-term targets with specificity on what those targets include, and…
    - how the company expects to achieve those targets (including internal strategies and approaches as well as the purchase of external credit offsets);
    - how those targets are expected to be delineated between Scope 1, Scope 2 and/or Scope 3 emissions;
    - make clear target disclosure that references *baseline* year GHG emissions, *current* reporting year GHG emissions, and *future* year GHG targets in **absolute terms** (i.e., tonnes per CO_2e) when target reduction assertions are disclosed (i.e., provide actual numbers as opposed to simple marketing assertions such as "…we aim to reduce GHG by xx% by 20xx…"); and
    - harmonize target time frames on a 5-year basis starting with a 2020 baseline.

- **Detailed Scenario Analysis:**
  - Provide scenario analysis and provide tangible examples of how each scenario could impact a company from an operational and financial perspective;
  - Provide clear and transparent cost information (i.e., both operating expenses and capital expenses) that could result from each scenario; and
  - Articulate range of probabilities for each scenario.

- **Governance and Compensation:**
  - Define clearly the governance approach for climate risk;
  - Provide a summary of board-level meetings in which climate risk was discussed; and
  - Articulate how climate risk is tied to short-term / long-term executive compensation.

We also believe that issuers within an industry should attempt to harmonize their key performance climate indicators, and metrics, to ensure comparability and consistency within the sector. While we admit this is not an easy task, it should be a priority for industry to ensure a mutually beneficial collaboration. For instance, the Oilsands Pathways to Net Zero alliance, which consists of the largest energy producers in Canada, can and should establish a working group to harmonize climate-related reporting standards within their sustainability reports. We think this group is a great example of industry collaboration to accelerate the drive to net zero. Other industries in Canada could emulate parts of this alliance model.

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?

Issuers should report their data in a consistent and comparable manner and this will ultimately help with the valuation of issuers, and promote the quality, integrity and appeal of the publicly-listed issuers and the attractiveness of Canada for both domestic and foreign investors.

In conclusion, we very much appreciate the opportunity afforded to us to share our viewpoints on behalf of our clients.

Yours very truly,

Bryan Pilsworth

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