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VIA EMAIL: comment@osc.gov.on.ca

February 16, 2022

Dear Canadian Securities Administrators,

RE: Consultation Response - Proposed National Instrument 51-107 Disclosure of Climate-related Matters (NI 51-107)

Thank you for the opportunity to comment on proposed National Instrument 51-107 Disclosure of Climate-related Matters (the Proposed Instrument). Manifest Climate is pleased to provide you with this submission in response to the NI 51-107 consultation.

The views represented in this submission are informed by the role Manifest Climate plays in the process of promoting and developing transparency in capital markets with respect to climate risks and opportunities. Headquartered in Canada, we work with global financial institutions, including some of Canada's largest banks and North American asset managers and asset owners.

Manifest Climate focuses on assisting clients develop climate competence, with a particular focus on improving client alignment with the recommendations of the TCFD (see https://manifestclimate.com). We work with clients at all levels of climate maturity, from industry leaders to those starting out on their disclosure journey. We believe the focus of our work enables us to submit an informed response.

Manifest Climate generally supports the Proposed Instrument and considers it to be an encouraging move to align Canadian capital market regulation with global best practice.

However, Manifest Climate believes the Proposed Instrument has certain shortcomings that should be addressed. This response outlines Manifest Climate's overall position and responds to certain questions listed in the consultation document. In addition, Manifest Climate supports the submissions from the Canadian Climate Law Initiative (CCLI) and United Nations Principles for Responsible Investing (UN PRI) in respect of the Proposed Instrument.

Capitalized terms that are not otherwise defined in this response have the meanings given to them in the CSA consultation document.[1]

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[1] See: https://www.osc.ca/sites/default/files/2021-10/csa_20211018_51-107_disclosure-update.pdf

MANIFEST CLIMATE

CSA Consultation Response - Proposed National Instrument 51-107 Disclosure of Climate-related Matters

Response to Questions
- Disclosure of GHG Emissions and Scenario Analysis
- Usefulness and benefits of disclosures contemplated by the Proposed Instrument
- Costs and challenges of disclosures contemplated by the Proposed Instrument
- Guidance on disclosure requirements
- Phased-in implementation
- Future ESG considerations

High-level Response

The Proposed Instrument is an encouraging step forward and its implementation would benefit both Canadian issuers and investors, enabling the improved management of climate-related financial risks. A national approach to implementing the TCFD, imposing mandatory climate-related disclosures, would provide consistent, comparable and decision-useful information to market participants.

Manifest Climate acknowledges and understands the CSA's sensitivity to the imposition of undue regulatory burden and costs associated with mandating climate-related disclosures, which has led the CSA to take certain positions with respect to scenario analysis, GHG emissions and the phase-in of requirements for non-venture issuers. However, Manifest Climate recommends that the CSA reconsider its approach on certain of these issues, as noted in this response.

Manifest Climate believes that a requirement to perform scenario analysis, an obligation to disclose (at minimum) Scope 1 and 2 emissions (with Scope 3 emissions disclosed if appropriate), and a commitment to bring forward timelines in the Proposed Instrument would both accelerate transparency in capital markets and the development of tools, guidance and services that are necessary to reduce the compliance burden on, and effect change in, covered entities.

Response to Specific Questions

We respectfully submit the following responses to specific questions posted in Part 10 of the consultation document. We have not responded to all questions; the paragraph numbers correspond to the question numbers in Part 10 of the consultation.

Disclosure of GHG Emissions and Scenario Analysis

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?**

The Proposed Instrument should require scenario analysis; immediately for large issuers and phased in over time for smaller covered entities. Scenario analysis is a critical tool for risk identification and management. Although scenario analysis can be complex, there is guidance (including from CDP, and the TCFD) available to assist issuers. In addition, the discipline of scenario analysis is developing at an accelerated pace, with new and existing service providers already responding to calls for scenario analysis from market participants.

The threshold used by the Expert Panel on Sustainable Finance, which identifies (and prioritizes) companies with a market capitalization greater than $8B, and companies with a market capitalization of $2B with revenues greater than $1B, is a useful guide. However, given the rapidly evolving maturity (and accessibility) of scenario analysis, the CSA might elect to mandate scenario analysis on larger issues (e.g. $5B+) in the first year of implementation, with broader adoption required over time.

Issuers, once covered by an obligation to disclose scenario analysis, should not have a comply or or explain option. A comply or explain approach will not drive issuers to build out knowledge or capacity, and will leave investors with poorer data and information on which to base investment decisions.

However, the Proposed Instrument could recognize and anticipate the different types of scenario analyses (e.g. qualitative vs. quantitative), and could also acknowledge that climate scenario analysis will improve over time as covered entities gain a greater understanding of the process, and as more data become available. The recognition that scenario analysis will improve over time would enable issuers to accelerate their familiarity with the discipline, which will in turn drive early adoption, improvement and greater consistency across the market. One challenge with existing scenario analysis is a lack of transparency on the methodologies used by different institutions.

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?**

We do not consider that a comply or explain approach toward the disclosure of GHG emissions is appropriate. However, we do acknowledge the complexity associated with Scope 3 emissions disclosures, and recognize that CSA might elect to phase in Scope 3 emissions obligations over time (e.g. for smaller issuers). However, we think the obligation to phase-in mandatory Scope 3 emissions disclosures should be on an accelerated basis (e.g. within 1-2 reporting cycles).

GHG emissions data are a key climate-related metric that is used by investors and other stakeholders to understand exposure to climate-related risks. GHG data is typically critical to understanding an issuer's climate performance and to assessing whether or not the issuer is setting credible transition targets.

A comply or explain approach would be a retrograde step from what is already expected of issuers from many investors, and from regulators in other jurisdictions. It would also shift climate risk assessments toward investors, who are poorly placed to make investment decisions without data.

Further, we note from our own experience that many of the larger emitters already calculate GHG emissions for internal purposes (e.g. to track the potential impact of changes to carbon pricing) or in response to investor demands. We also note that GHG emissions are among the most disclosed climate-related metrics. The TCFD's 2021 Status Report showed that recommendation Metrics and Targets B (Reporting Scope 1, Scope 2 and Scope 3 emissions) was the fourth most disclosed amongst all of the TCFD's recommendations in 2020.

Finally, if issuers do not already have GHG emissions data, those data are generally knowable. That is to say that there are already significant resources and service providers available to assist companies in calculating and assessing GHG data.

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?

We consider that the disclosure of both Scope 1 and 2 emissions should be mandatory for all issuers, which is consistent with the TCFD's most recent guidance, published in 2021. Further, Scope 1 and 2 emissions data are (or will soon be) required information for financial institutions, due to the increasing focus on financed emissions (Scope 3), which necessarily rely on the ability to know and calculate a borrower or issuer's Scope 1 and 2 emissions. Put differently Scope 1 (and typically Scope 2) emissions are necessarily material both to individual issuers and the sectors/industries in which those issuers operate. We note in passing efforts to standardize the calculation of financed emissions (see the efforts of The Partnership for Carbon Accounting Financials (PCAF)).

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

As noted above, we consider that Scope 1 and 2 emissions data should be mandatory for all issuers. We recognize the challenges with determining Scope 3 emissions data and the TCFD's acknowledgment that Scope 3 emissions should be provided "if appropriate". However, we generally take the view that Scope 3 emissions data should be mandated, if not immediately, then certainly over time (e.g. phased in, consistent with the phase-in of scenario analysis discussed above). Scope 3 emissions are already being factored into investors' analyses of issuers and their climate plans. For example, knowing an entity's Scope 3 emissions can be used to understand its exposure to transition risks (if not directly, then as a proxy). Further, the disclosure of Scope 3 emissions lends credibility to emissions reporting and associated targets. A Scope 1/2 emissions target from a company that has high Scope 3 emissions misrepresents the true climate impact of (and exposure to) that company.

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.**

    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?**

We consider that the Proposed Instrument should contemplate the calculation and disclosure of GHG emissions in line with the GHG Protocol. This is consistent with the latest TCFD guidance (2021). Although the GHG Protocol is not the only available standard, it is a globally accepted best practice framework for reporting GHG emissions, making it acceptable for use to calculate GHG emissions. For example, Canadian provincial regulations require GHG reporting be done in accordance with the ISO 14064-1 standard, which is consistent with the GHG Protocol. Mandating the use of the GHG Protocol would promote a consistent and standardized methodology to be followed by issuers.

That said, we acknowledge that the Proposed Instrument will need to be flexible enough to allow for the use of alternatives should those become available or evolve over time (e.g. a more stringent, or sector-specific GHG disclosure standard). In this regard we note that the Proposed Instrument already contemplates an obligation on an issuer to disclose how any alternative reporting standard compares to the GHG Protocol. This is positive, but we consider that the final instrument should go further, to establish thresholds/boundaries of comparability, transparency and, perhaps, peer review, to ensure that investors and other stakeholders can make sense of differing standards in the market.

    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?**

Please see our comments above. The use of any alternative reporting standard should be subject to appropriate definition around what represents a “suitable alternative”. This might be the case, for example, for financial institutions, for which the PCAF methodology noted above might help to fill gaps in the existing GHG Protocol.

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 consider that best practice would involve GHG emissions auditing. In this regard: (a) we note that many companies already have some form of verification processes in place; (b) that there are

resources and service providers available across industries to audit GHG data; and (c) audited information generally improves data quality and investor confidence. However, acknowledge that GHG auditing remains an evolving discipline, and audit requirements would increase the compliance burden. For these reasons, the CSA may wish to mandate audit on a phased basis.

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?**

We agree with TCFD Guidance, which recommends that issuers with at least 1 billion USD in annual revenue should include the entirety of their climate-related financial disclosures in annual financial filings, i.e. mainstream filings; not by reference to another document. GHG emissions are an important part of climate-related disclosures and including them along with the other information ensures a similar level of scrutiny on behalf of the issuers preparing disclosures, while providing investors with all key information in one place, facilitating their review of disclosures.

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 response to this question focuses on the substance of climate-related information (i.e. what information is particularly relevant), rather than process (i.e. how the information is incorporated into decision-making). In this context, although emissions-related information is a key marker, and one that stakeholders often gravitate toward, we consider other climate-related information to be just as (if not more) important to investors. This other information includes the identification, assessment, management and financial quantification of risk (in particular, but not limited to, physical risk), metrics around planned expenditure on climate risks and opportunities, and information that reveals, in high-definition, a company's plan to transition toward a low-carbon economy. Beyond that, specific information that is often decision-useful, but underreported, is the link between executive and management compensation and climate. Finally, we are seeing an increasing interest in the outcome of scenario analyses and how that maps onto/impacts plans and expenditures, which is why we think mandatory scenario analysis makes sense.

Decision-useful information for investment and voting decisions span the four pillars of the TCFD (governance, strategy, risk management and metrics and targets), but we tend to investors gravitate toward data that focus on current and projected exposure to climate risk, the projected resilience of a company to the low-carbon transition, and the projected ability of the company to exploit opportunities that are associated with climate change.

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?**

The disclosures contemplated by the Proposed Instrument would improve investor access to decision-useful climate-related financial information by: (a) increasing the number of climate-related disclosures from Canadian issuers; (b) providing investors with access to information that is already (increasingly) sought in investment decisions; (c) ensuring fewer differences between Canada and the disclosure requirements of other leading jurisdictions (e.g. those described in Annex F of the CSA consultation document), to which issuers and investors may already be exposed; and (d) improving the ability of investors to understand how well adapted Canadian issuers are adapted to the low-carbon transition.

Issuers would also benefit from the disclosures contemplated by the Proposed Instrument: (a) leading issuers would be able to differentiate themselves from competitors by demonstrating climate-resilience and alignment to the transition to a low-carbon economy; and (b) develop processes and systems that would align to existing and projected demands for information from Canadian and international asset managers.

Key to all of this is the mandatory footing of disclosures under the Proposed Instrument. Mandatory disclosures would result in a step-change both in the level of climate-related disclosures, and, critically, in the quality, consistency and comparability of those disclosures.

<u>Costs and challenges of disclosures contemplated by the Proposed Instrument</u>

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

We do anticipate increased costs and demand on resources to provide the disclosures contemplated by the Proposed Instrument. However, acknowledging our role as a service provider, we do not believe those costs and demands will ultimately be prohibitive. We also believe that the initial costs and challenges associated with complying with the Proposed Instrument will drive innovation and efficiencies (we look to our own platform as an example) across service providers both in the short and longer term.

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?**

Yes. Scenario analysis is time consuming and typically requires the most additional education for stakeholders within issuers. Scenario analysis can be contrasted with GHG emissions assessments.

The latter is typically assigned to one team within an organization, whereas well executed climate-related scenario analysis engages multiple parts of an organization and brings them through the analysis process. Another challenging area is in the calculation of Scope 3 emissions, particularly for financial institutions. (Scope 3 emissions calculations is a relatively newer exercise and requires more information than Scope 1 and 2 emissions quantification.)

However, concerns related to cost, availability or complexity should not be overstated. There are significant resources available in the market for assessing, disclosing and auditing GHG emissions, setting targets, enhancing climate capabilities and undertaking scenario analysis.

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?**

We do not believe that additional accommodations for venture issuers are needed; the Proposed Instrument's phase-in period accommodates venture issuers.

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 note the inclusion of guidance in the Proposed Policy and offer some additional resources below. However, we generally recommend that the Proposed Policy be drafted in a way to allow reference to other tools, guidance and data sources as they develop over time. The discipline of climate-related disclosures is hallmarked by rapid evolution, and so guidance that is "good" today becomes outdated tomorrow. In our work we often need to review and recalibrate our reference material, and we therefore recommend that the CSA similarly allows for dynamic updates from time to time. We further recommend that the CSA contemplates the ability to reference service providers (such as Manifest Climate) that offer focused TCFD advice and support.

Subject to our comments above, we note that there are significant resources available that support the TCFD. By way of example, the World Business Council for Sustainable Development (WBCSD) has prepared illustrative guides across a number of sectors (e.g. agriculture and forestry, automotive, chemical, construction and building materials, electric utility, and oil and gas).

The challenge with these types of resources is that (a) they age over time, so will require monitoring to ensure they retain currency, and (b) their focus on the TCFD recommendations (without departure) differs from the rules of the Proposed Instrument (which does, as currently proposed, depart in detail from certain aspects of the TCFD). To illustrate, the CSA has carved out scenario

analysis from the Proposed Instrument. That means Canadian-specific resources on climate-related scenario analysis (e.g. Climatedata.ca and The Climate Atlas of Canada to name two), which have the potential to accelerate climate-related disclosures, would, if the Proposed Instrument were to be adopted in its current form, remain underutilized. As noted above, we recommend that the CSA reconsiders its position with respect to scenario analysis.

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.**

    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?**

We recommend that the phase-in timeline should be accelerated. In the example above, 2023 should be the first year for reporting, albeit on a non-penalty basis (i.e. so that penalties are only triggered in the 2024 reporting year). This would allow - in effect - a grace or test period, granting late-arriving issuers some reprieve, but building capacity in the market as early as possible.

In our experience, issuers can ramp-up capacity and disclosure skills relatively quickly, if they proactively use the tools, guidance and service providers available in the market. Having - in effect - a Year 0 reporting period would allow covered entities to build the institutional capacity and processes in a way that is not unduly burdensome.

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?**

Three important ESG topics, which complement the TCFD, and which should be a priority focus of the CSA, are (a) indigenous stakeholder engagement, (b) biodiversity-related disclosures consistent with the output of the Taskforce on Nature-related Disclosures (TNFD) and (c) the broader standardization of sustainability disclosures.

Canada is well positioned to build domestically-critical, and internationally-leading, standards for indigenous stakeholder engagement. A significant number of issuers in Canadian capital markets

operate on or adjacent to (or otherwise impact) indigenous lands and communities (e.g. in energy, mining and other resource-based activities). The CSA has the opportunity to lead by example and correct for gaps in existing frameworks and standards. In a similar way, the CSA has the opportunity to promote the work of the TNFD, which will be critical to address biodiversity loss and damage to ecosystems. The CSA can also help motivate existing efforts to standardize sustainability disclosures, particularly as Montreal is to serve as a hub for this work.

Collectively, support from the CSA on indigenous engagement, the TNFD and standardized sustainability practices would, in concert with the CSA's existing ambition on the TCFD, have a catalytic impact on Canada's global leadership on ESG issues.

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We acknowledge the important work that the CSA is doing with respect to the adoption of mandatory climate-related financial disclosures, and thank the CSA for the opportunity to provide input on this critical and time-sensitive topic.

We are available to discuss any of the views expressed in this response, and would welcome the opportunity to present our recommendations in more detail at the CSA's convenience.

Should you have any questions regarding our submission, please contact Pete Richardson