

February 15, 2022

The Secretary
Ontario Securities Commission
20 Queen Street West
22nd Floor, Box 55
Toronto, Ontario
M5H 3S8

Subject: BNS Response to the CSA Proposed National Instrument 51-107 Disclosure of Climate-related Matters and its companion policy

Dear Secretary,

We welcome the opportunity to comment on the *CSA Proposed National Instrument 51-107 Disclosure of Climate-related Matters and its companion policy*. The assessment and management of climate-related risks is increasingly important to not only regulators and policymakers, but also to our customers, shareholders, and employees.

Overall, we support the CSA's plans to align its disclosure requirements with the Task Force on Climate-related Financial Disclosures (TCFD). We also strongly encourage coordination among regulators and standard setters to harmonize climate disclosure requirements in order to foster comparability and improves the quality of disclosure amongst issuers.

We support the views as laid out in the submission provided by the Canadian Bankers Association (CBA) and has provided its views below on the questions identified in the Proposed Instrument. With respect to our individual experience on TCFD reporting, Scotiabank has provided disclosures in both the ESG Report and Annual Report since 2018 with the key challenges being data availability and standardized methodologies. A set of standards for climate financial disclosures for issuers in Canada will become crucial as the country continues to transition to a low-carbon future.

We look forward to continuing this discussion with the CSA.

Sincerely,



Azer Hann
Senior Vice President, Enterprise Risk Management

Scotiabank Submission

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?

Scotiabank has provided TCFD disclosures in both the ESG Report and Annual Report since 2018. Recently, global momentum behind TCFD has grown significantly. Multiple jurisdictions have proposed or finalized laws and regulations to require disclosure aligned with the TCFD recommendations coming into effect as early as 2022.

Scotiabank took a multi-year approach to TCFD disclosures that started with identifying achievable and feasible baseline disclosures as it relates to the four core pillars (risk management, governance, strategy, and metrics and targets). Based on the lack of enhanced data-gathering strategies at the time, the bank focused its external disclosures towards risk management and governance pillars due to the ease of formulation and the degree of global reporting consistency.

The two main challenges emerged as the bank has embarked on its TCFD disclosure journey. First, there have been difficulties with obtaining relevant data and selecting and applying assessment methodologies. Second, variability in metrics and financial impact data reported, and time horizons considered (even within sectors), can make data aggregation and comparability challenging.

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?

Scotiabank voluntarily discloses its Scope 1 and Scope 2 emissions in accordance with the GHG Protocol.

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?

The bank has conducted scenario analysis for its business units operating in Europe, with plans to scale the modelling to the whole bank level in fiscal 2022. The key challenges in preparing scenario analysis are:

1. Long time horizons associated with climate change. Typical risk modelling involves time horizons spanning only a few years, which makes adapting traditional methods to climate change scenarios challenging.
2. Many assumptions are needed about how the bank's business mix and carbon intensity will change over the time horizon associated with a climate scenario.
3. Climate-relevant data availability for clients. It is currently challenging to obtain high quality data on climate relevant data (e.g. locations of important assets which may be subject to physical risk, carbon intensity measures, water usage) for individual clients, which introduces additional uncertainty into modelling.
4. The granularity of physical risks produced from global climate models is very coarse. More detailed bottom-up modelling would assist with the assessment of physical risk where asset locations are known.

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?

Scotiabank supports the CSA's proposal that scenario analysis would not be required.

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?

Scotiabank supports mandatory disclosure of Scope 1 & 2 GHG emissions for large issuers. However, NI 51-107 should make clear that Scope 1 & 2 GHG emissions disclosure can be disclosed in non-financial disclosure documents such as an ESG Report, rather than in an issuer's MD&A/AIF (i.e. "core" securities law documents), if this information is not material to the issuer from a securities law perspective. Recognizing that smaller issuers may not be as far along in their emission measurements journey, the CSA should consider making GHG emissions data mandatory only for larger issuers upon the rules being effective, with the CSA to determine the appropriate threshold for measuring large issuers.

Disclosure of Scope 3 GHG emissions should be on a comply or explain basis, with the location also determined by materiality. This would benefit smaller issuers or issuers with activities that are not materially affected by climate to reduce their regulatory and legal compliance burden.

These disclosures could be excerpted from an issuer's voluntary disclosures and filed on SEDAR in order to be easily accessible to the CSA and interested stakeholders, but not incorporated by reference into an issuer's prospectus(es).

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?

Scotiabank supports mandatory disclosure of Scope 1 & 2 GHG emissions for large issuers if issuers are allowed the flexibility to disclose these emissions outside of their "core" securities law documents, if this information is not material. Disclosure of Scope 3 GHG emissions should be disclosed on a comply or explain basis. Disclosure of Scope 1, 2 and 3 emissions should only be required to be set out in core securities law documents if material to an issuer.

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

Scope 3 emissions should not be mandatory at this time and should instead be on a comply or explain basis. Please see response above in question 5. Also, there are many obstacles with disclosing quantitative Scope 3 emissions data at this stage including the lack of data granularity, comparability, materiality, and access to reliable and validated tools. Market participants are not able to readily rely upon Scope 3 emissions data for decision-making purposes.

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?

Scotiabank has an October fiscal year end. The collection of energy consumption data and the calculation of GHG emissions becomes available by the end of calendar year and takes a few months to scrub this information.

External verification and disclosure occur in the bank's ESG Report, which is published in March. Please see responses to questions 5 and 8 regarding concerns with the location and timing of the disclosure, if any disclosure were to be required in the MD&A/AIF.

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?

Scotiabank supports the use of the GHG Protocol or a reporting standard comparable with the GHG Protocol.

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?

Scotiabank supports the use of the GHG Protocol or a reporting standard 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?

Scotiabank supports the use of the GHG Protocol or a reporting standard comparable with the GHG Protocol. Standards that are developed by the International Sustainability Standards Board (ISSB) or equivalent body should be considered. Flexibility should be given to issuers to adapt to global standards as they evolve.

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?

Scotiabank supports assurance on Scope 1 & 2 GHG emissions reporting with flexibility to determine the appropriate type and level of assurance with consideration of materiality. This area may need to be revisited in relation to any future disclosure or assurance-related guidance from the ISSB. We believe assurance should be out of scope for Scope 3 GHG emissions.

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?

Scotiabank support issuers having the flexibility to include all proposed CSA disclosures (not limited to GHG disclosures) in a location deemed appropriate if this information is not material. Issuers should not be required to incorporate by reference GHG emissions disclosures in another document into the MD&A/AIF, if such disclosures are not material. Issuers should be permitted to decide whether GHG emissions are material for securities law purposes and where they are determined to be not material, disclose GHG emissions in non-financial disclosure documents such as in dedicated ESG and standalone TCFD reports.

Furthermore, as articulated in question 5, it is not possible for Scotiabank to align the timing of the proposed GHG emissions disclosure with our financial reporting, which is based on fiscal year-end timelines.

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?

The universe of investors is broad, and as such, their use of, and approach to, climate issues vary. For those investors who use climate-related information, any standard should provide the ability for investors to meaningfully compare companies on whatever climate-related metric is being reported.

Scotiabank would propose that any standard first focus on those areas where calculating methodologies and data quality are more mature and well established. These are the metrics that would provide for the most meaningful basis of comparison for investors.

As for the climate-related information that is most important for investors' investment and voting decisions, again this does vary. Some examples include:

- Scope 1 and 2 emissions intensity (per unit production), including industry benchmarks.
- Governance and management of climate related matters, including transition and physical risk.
- Assessment of the risks and opportunities associated with the energy transition.
- Net zero strategies.

The determination of what climate information is most important will depend on the investor and the company. Different types of climate information may be more financially material depending on the company, its sector, its location(s), supply chain and clients. Investors should also have an explanation of any limitations (such as the unavailability of solid data) that might prevent a fulsome basis on which to judge an issuer or its competitors on with respect to the metric that is being reported.

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?

A set of standards for climate financial disclosures for issuers in Canada will become crucial as the country continues to transition to a low-carbon future. Benefits would include having accurate company specific information, comparability, and increased rigor of reporting. Scotiabank appreciates that the Proposed Instrument aligns with internationally recognized best practices for climate disclosure (i.e. reflects the TCFD's core elements) and proceeds in a similar direction to other regulatory and standard setting bodies.

Costs and challenges of disclosures contemplated by the Proposed Instrument

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

There is a high bar to deliver effective disclosures with principles ranging from being clear, balanced, and understandable to reliable, verifiable, and objective. First, issuers will need to establish TCFD fundamentals through peer benchmarking, stakeholder engagement, and roadmap design. Next, issuers will deep dive into specialized aspects of TCFD like scenario analysis, metrics and targets, upskilling and training for executives. Finally, issuers will need to embed key elements such as decarbonization strategies and governance support to ensure the longer-term TCFD journey is realized.

To embark on this TCFD journey, there are many costs associated with the process such as adequate data collection processes (i.e. ensuring data quality and coverage), talent acquisition (ESG trained professionals),

resource allocation (i.e. ESG mandates, external consultants), stakeholder/shareholder engagement, and external assurance (if required), among other areas.

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?

The strategy (specifically scenario analysis) and metrics and targets pillars are the most challenging to implement due to their quantitative nature. The bank faces challenges related to data availability, data quality, and the lack of standardized methodologies. Preliminary outputs lack transparency and comparability at this stage of industry maturity. The risk management and governance pillars are more qualitative and descriptive in nature and are therefore less complex from a disclosure perspective. However, operationalizing the monitoring, assessing, and reporting climate risk function as it relates comes with challenging aspects depending on the level of maturity.

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?

Scotiabank believes that the phased approach, 1 year for non-venture issuers and 3 years for venture issuers, is appropriate. Disclosure expectations should apply to all issuers to ensure consistency and comparability. An approach based on proportionality should be adopted for smaller issuers and some form of accommodation provided (e.g. phased-in approach) considering greater time and resource constraints faced by these 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?

The Proposed Instrument demonstrates a strong understanding of the domestic and international developments as it relates to climate-related regulation in Appendix E and F. The Proposed Instrument should be periodically updated to reflect changes in TCFD guidance, new requirements from regulators and standard setting bodies, and other widely accepted industry standards that may develop over time.

Scotiabank would strongly encourage the CSA to further consider climate-specific safe harbor protections (as identified in the 2019 Expert Panel on Sustainable Finance Report) with respect to good faith approximations and assumptions in climate disclosures. Issuers will be required to balance the request for useful, transparent disclosure against the fact that methodologies and data continue to evolve. Climate specific safe harbor protection would be beneficial to issuers and would encourage more transparency.

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?

No comment at this time.

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?

Not applicable. Scotiabank does not use long form prospectuses.

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?

The one-year transition phase for non-venture issuers is connected to the location of the CSA proposed disclosures. If disclosures can remain in locations outside of the “core” securities law documents, Scotiabank is generally comfortable with the proposed one-year transition. Disclosure requirements should be subject to securities law materiality standards, principles-based, and address proportionality.

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?

Venture issuers are typically smaller and new firms that may not have the resources to comply with new requirements on the same timeline as other issuers. A three-year phase in period appears reasonable.

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?

Scotiabank recommends regulators require all issuers to assess and report on the sustainability/ESG issues that are most material to their business, rather than selecting a particular sustainability or ESG topic for all issuers. It will be important to distinguish financially relevant sustainability information from values or civil society-based objectives.