Submission to the Canadian Securities Administrators Regarding the Consultation on Proposed National Instrument 51-107 Disclosure of Climate-related Matters

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Delivered by email: consultation-en-cours@lautorite.qc.ca, comment@osc.gov.on.ca

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RE: Proposed National Instrument 51-107 Disclosure of Climate-related Matters

Climate change is one of the most significant challenges facing Canada and the global community. All sectors of the Canadian economy need to be part of the solution to climate change, and mandating climate-related disclosures brings transparency to how companies are considering the impacts of climate change on their business and working towards addressing these impacts.

A key partner in the fight against climate change is the investing community. Capital flows will need to be reoriented to meet the challenge of climate change, but this cannot happen without reliable, high-quality, comparable, and consistent data about how companies are managing their exposure to climate-related risks, considering the opportunities, and disclosing their contribution to global greenhouse gas (GHG) emissions. With improved information from climate-related disclosures that are aligned with the Task Force on Climate-Related Finance Disclosures (TCFD) framework, long-term investors such as Sun Life would be better positioned to compare investment options and channel capital toward addressing climate change.

Sun Life already voluntarily provides climate-related disclosures in alignment with the TCFD framework, so we recognize the substantial work it takes to develop climate-related disclosures. For this reason, we urge the Canadian Securities Administrators (CSA) to strengthen its proposal as outlined in the body of this submission. Doing so will ensure that the efforts of companies to disclose their governance structure, strategy, risk management practices and greenhouse gas emissions as well as other metrics and targets will provide investors with the information they need to finance Canada's transition to a net-zero economy. In addition, a stronger disclosure regime will help the global competitiveness of Canadian companies as regulators around the world also seek to expand requirements for climate-related disclosures. In our response to the CSA's consultation, we have suggested an approach that we believe balances the needs of issuers with those of investors eager to meet the challenge of climate change.

We appreciate the opportunity to provide input to the CSA consultation on Proposed National Instrument 51-107 Disclosure of Climate-related Matters. In addition to our submission, we support the submissions of the Canadian Life and Health Insurance Association, the Investment Funds Institute of Canada and the Sustainable Finance Action Council.

Yours sincerely,

[redacted]

Alanna Boyd, Chief Sustainability Officer, Sun Life

Experience with TCFD recommendations

Q1 - 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?

In the Management's Discussion & Analysis section of our 2020 Annual Report, we published our first disclosures guided by the TCFD recommendations. In our annual Sustainability Report, we publish our global Scope 1 and Scope 2 GHG emissions from both company-occupied real estate and real estate investments under our financial control as well as Scope 3 GHG emissions from corporate travel and, as available, real estate-related sources such as water, waste and tenant- or landlord-paid utilities. We report on a rolling three-year basis, with 2014 being the first year for which we reported global data.

Our decision to issue voluntary disclosures aligned with the TCFD recommendations was driven by interest from investors, analysts and institutional clients, consideration of peer practices as well as our own desire to actively engage in climate-related initiatives as part of Sun Life's overall commitment to sustainability.

Developing a voluntary disclosure aligned with the TCFD recommendations has been a valuable exercise because it helps investors and other stakeholders assess our management of the potential climate-related impacts on our business. Some of the critical tasks associated with developing our disclosure began with educating and building awareness within the organization about the nature and impacts of climate change on Sun Life, the TCFD recommendations and the need for a governance regime and management accountability. Next, we focused on writing clear and coherent disclosures that addressed the relevant climate impacts for our business consistent with our vision and emerging climate strategy. We strive to provide robust disclosures that offer meaningful insights to investors and other stakeholders.

A challenge we encountered in this process was determining where to include the qualitative and quantitative sections of our disclosure and differentiating our TCFD disclosure from our existing regulatory filings. While the TCFD recommends that the disclosures should be included in mainstream financial filings, there was no established practice on where the disclosures are best placed. As well, some of the 11 recommendations and related guidance are more challenging to implement than others. We acknowledge that developing a TCFD disclosure is a challenging endeavour, and our full implementation of TCFD recommendations will be a multi-year journey and our current disclosures reflect the fact that we are at a relatively early stage in this journey

Disclosure of GHG Emissions and Scenario Analysis

Q2 - 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?

As noted above, in our annual Sustainability Report, we have been reporting our global Scope 1 and Scope 2 GHG emissions from company-occupied real estate and real estate investments under our financial control as well as Scope 3 GHG emissions from corporate travel and as available, real estate-related sources such as water, waste and tenant- or landlord-paid utilities. We report on a rolling three-year basis, with 2014 being the first year for which we reported global data.

Sun Life's annual absolute emissions are calculated as per the GHG Protocol.

Q3 - 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?

We participated in the climate scenario analysis pilot project between the Bank of Canada and the Office of the Superintendent of Financial Institutions. The pilot experience was valuable in deepening our understanding of potential carbon transition impacts, helping develop needed skill sets and better understanding the resources and technical expertise required for this type of analysis. Participation in the pilot highlighted the important role industry initiatives can play in accelerating the timelines by which these capabilities can be developed in comparison to individual institutions working in isolation.

In the past, we have engaged in various forms of climate scenario analysis, in certain instances leveraging the work of one of our asset management subsidiaries, BentallGreenOak, as a participant in the UNEP FI climate working groups. Climate change scenario testing is complex given the interconnections between multiple assumptions and outcomes, the limited ability to use historical data, a lack of consistent and meaningful data, the long-time horizon that must be modelled and the many uncertainties (such as future government policy and societal adoption) associated with climate change. The findings of the pilot are broadly consistent with our past understanding of sectors that are most likely to be affected by potential climate change transition impacts and the implications of delaying policy action. We believe it will help to inform our strategies and climate scenario testing capabilities going forward as well as our engagement with the issuers that we are invested in and with our financial sector peers.

An ongoing challenge for completing bottom-up asset analysis is the lack of emissions information from issuers, particularly private ones. In addition, even with common reference scenarios used by various market participants, it has been a challenge to consistently apply them given that the methodologies and/or systems used by companies can be unique.

Q4 – 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?

We agree with the CSA's proposed approach. While scenario analysis can be a useful management tool, at this time, scenario analysis should not be required to be disclosed given that: common scenarios and assumptions have yet to be agreed upon; methodologies for conducting scenario analysis are not sufficiently developed; and there are significant data gaps that limit the utility of publicly disclosed scenario analysis. These factors lead to a lack of comparability.

We support reviewing scenario analysis for possible inclusion at a later date when the practice and supporting data is more developed and reporting is more likely to be useful in decision-making. We request that the CSA coordinate with the efforts of the Office of the Superintendent of Financial Institutions to develop standardized climate scenario analysis exercises.

Q5 – The TCFD recommendations contemplate disclosure of GHG emissions, where such information is material.

Q5.1 – The Proposed Instrument contemplates issuers having the option to disclose GHG emissions or explain why they have not done so. Is this approach appropriate?

Please see our response to Question 5.3.

Q5.2 – 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?

Please see our response to Question 5.3.

Q5.3 – Should disclosure of Scope 2 GHG emissions and Scope 3 GHG emissions be mandatory?

We believe that all reporting issuers should be required to disclose material elements of their emissions profile. Climate change is impacting companies around the world. In order for large institutional investors to be able to authentically support the transition of their clients' assets, we must be able to evaluate the emissions profiles of our underlying investments regardless of industry or activity.

Having the option to "opt-out" through a comply-or-explain regime would reduce the overall transparency in the market and work against the goals of achieving a decarbonized future. All companies will be impacted in one way or another through their own emissions profile, their supply chain or the products they offer.

We recommend that the CSA mandate Scope 1 and Scope 2 emissions, regardless of materiality. It is our understanding that the disclosure of Scope 1 and 2 emissions will not be a significant challenge for issuers, and as an investor, data from these disclosures is vital for estimating our Scope 3 emissions.

We propose that Scope 3 emissions should be disclosed on a comply-or-explain basis, with mandatory disclosure of Scope 3 emissions to be implemented in the future. Scope 3 can be a very significant portion of a company's overall emissions profile – however we acknowledge the complexity involved in calculating or estimating Scope 3 emissions, the lack of access to data and the potential for double-counting of emissions under Scope 3. Due to the data gaps many issuers face, they should be encouraged to disclose their Scope 3 emissions to the extent to which data is available.

Q5.4 - 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?

This question is not applicable to Sun Life because we are not required to report GHG emissions under existing federal or provincial legislation.

Q6 - 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.

Q6.1 - 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 currently calculate our GHG emissions per the GHG Protocol and support other issuers' use of the GHG Protocol. However, we do not encourage mandating the GHG Protocol because a new standard may be developed that becomes more widely adopted or other standards may emerge that are more appropriate for certain sectors to encourage broad adoption and compliance. We note that the GHG Protocol Corporate Standard states that it is compatible with most existing GHG programs and their accounting requirements.

Q6.2 - 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?

At this time, the GHG Protocol is appropriate for our GHG emissions accounting. We believe the use of the GHG Protocol helps ensure that GHG emissions disclosures are consistent and comparable, which improves the ability of an investor to assess how a company is performing versus peers. We do recognize that alternative reporting standards exist for certain sectors. To the extent that companies within those sectors consistently apply their respective standards, we are supportive of these regimes with adequate supporting disclosures noting the key differences with the GHG Protocol. We support a policy standard that encourages broad based adoption, ease of implementation and enhanced transparency.

Q6.3 - 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 do not anticipate using a GHG accounting standard other than the GHG Protocol. However, should the GHG Protocol not address a particular asset class or sector that we invest in, we would estimate our GHG emissions and disclose our methodology for determining our emissions.

We believe that the CSA should be flexible in terms of standards, especially as they are evolving, with the goal of supporting all companies in their ability to set climate and decarbonization goals and targets.

Q7 - 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?

Sun Life received Independent Limited Assurance on our Scope 1, 2 and select Scope 3 emissions disclosed in our 2020 Sustainability Report and are seeking the same for our 2021 GHG emissions reporting.

We are supportive of companies pursuing some form of verification/assurance of their GHG emissions as a best practice to ensure the quality of data and processes disclosed. However, we understand that many issuers are in the early stages of disclosing their emissions, and the addition of some form of assurance may dissuade issuers from disclosing and would increase the initial compliance cost of developing a TCFD disclosure.

For these reasons, we recommend that assurance should be referenced as a best practice that reporting organizations are advised but not required to pursue at this time. We encourage the CSA to revisit such a requirement in the future. Over time, we expect issuers to plan for future assurance, and assurance providers can build their capacity to provide this service on a larger scale.

Q8 - 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 the proposal to permit issuers to incorporate GHG disclosures by reference and would support flexibility to apply this approach to other disclosure requirements of the Proposed Instrument.

Usefulness and benefits of disclosures contemplated by the Proposed Instrument

Q9 - 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?

Climate-related, decision-useful information translates into information on how climate change can affect business operations in the present and in the future as well as the ultimate impact on financial performance, reputational risk and license to operate. SLC Management, Sun Life's institutional asset manager, and its affiliates actively participate in collaborative engagements with some of the highest greenhouse gas emitting public companies. Through these initiatives, they work collectively to influence issuers to improve their disclosures related to climate-related risks in financial reporting. We believe that TCFD-aligned reporting can provide investors with reasonable information to make better decisions.

In order to evaluate a company's high-level qualitative strategies and plans, SLC Management and its affiliates use information about the company's methodology for assessing capital alignment, key assumptions and key performance indicators and targets for decarbonization. For example, assumptions for fossil fuel related industries may include asset life expectancy, discount rate, commodity prices and asset retirement obligations.

SLC Management incorporates climate-related information into investment decision-making through our in-house ESG Plus framework. For every investment in SLC

Management's portfolio, either private or public, ESG analysis is performed prior to investing and on an ongoing basis.

The core of the ESG Plus framework is the development of ESG Plus Studies. The framework reviews each sector in detail to identify sector-relevant risk factors. These risk factors are then used to develop proprietary company-level scores, which are incorporated into the "normal course" fundamental analysis of investments.

Q10 - 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?

With the proliferation of new climate-related alliances (Net Zero Asset Managers initiative) and several existing reporting regimes (TCFD, Climate Disclosure Standards Board, Principles for Responsible Investment, etc.) driving for enhanced transparency around transition strategies, targets and commitments, we expect industries to self-adopt certain practices in order to remain competitive in the market and, in many cases, well ahead of regulatory requirements. The required disclosures under the Proposed Instrument should serve to both complement and support those initiatives as well as establish a baseline for all reporting entities. The overall benefits of this proposal would be significantly diminished if companies can avoid disclosing their emissions profile.

A well implemented disclosure regime has many potential benefits. Better and more consistent data across industries would allow for better decision making and ultimately for capital to flow to those companies that are working to develop real solutions for the transition to a low-carbon economy. Mandatory disclosures will help investors compare companies, gain access to a fuller set of data and improve the accuracy and reliability of data.

As a large investor in private markets, we encourage governments across Canada to consider how to ensure that similar disclosure standards are applied to large, privately held companies when they issue debt.

Costs and challenges of disclosures contemplated by the Proposed Instrument

Q11 - What are the anticipated costs and challenges associated with providing the disclosures contemplated by the Proposed Instrument?

There are two challenges associated with the disclosures contemplated by the Proposed Instrument: access to reliable data and timing of data availability.

<u>Access to reliable data</u>

Efforts to expand and standardize GHG emissions disclosures, particularly in a company's investments and value chain, are key to enhancing the quality and breadth of data available for investors and other key stakeholders. However, despite the CSA's efforts to improve data through the Proposed Instrument, data gaps will persist from public and private companies not covered by the Proposed Instrument and from issuers that choose not to disclose their emissions if the CSA does not make it mandatory for them to disclose. These challenges reduce the breadth and reliability of emissions data available to investors and can lead to increased costs from investors acquiring data and estimates in order to perform required analysis. From a business operations perspective, the resource intensity required of issuers that seek to disclose all of their emissions as completely as possible would lead to higher costs as well.

These costs and challenges could limit the ability of all investors to account for climate-related risks in their investment decision making and direct capital toward the transition to a net-zero economy. For this reason, we recommend that the CSA require issuers to disclose their Scope 1 and Scope 2 emissions and allow for Scope 3 disclosures to the extent to which they have data. In order to encourage issuers to disclose their emissions, Canada's securities regulators should include robust safe harbor provisions to shield issuers from legal liability as long as they disclose their reporting methodology and scope of GHG emissions reporting.

Timing of data availability

It takes some time for the issuer to review the data required for calculating Scope 1 and 2 emissions. Issuers may need to provide an estimate for data that is unavailable on a timely basis. The GHG Protocol permits this practice provided that the methodology for doing so is adequately disclosed. In addition, since Scope 3 emissions rely on the emissions disclosures of other companies, the data underlying the Scope 3 emissions disclosures of an issuer are on a lag.

Q12 - 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 Metrics and Targets section comes with the highest implementation costs due to the need to acquire or model investee company emissions data, with Scope 3 data being the most problematic. (Refer to our response to Question 11.) The most challenging to prepare is the Strategy section (although the omission of reporting on resilience to different climate-related scenarios simplifies this pillar). It should be noted that the challenges in associated with reporting on each TCFD pillar will vary depending on the state of development and maturity of a report preparer's climate change management practices.

Q13 – 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?

This question is not applicable to Sun Life.

Guidance on disclosure requirements

Q14 – 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 Policy should be supplemented with expectations and guidance on implementing the forthcoming climate disclosure standards being developed by the IFRS Foundation's International Sustainability Standards Board.

Q15 – 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?

As we understand the intention of the Proposed Instrument and Proposed Policy, the identification of climate-related risks (i.e., the disclosures required under "Strategy") will be subject to a materiality assessment, but the disclosures relating to how an issuer manages those risks (i.e. the disclosures required under "Risk management") is not subject to a materiality assessment. We believe the Proposed Instrument and Proposed Policy, read together, sufficiently explain the interaction of the risk factor disclosure in the Proposed Instrument with the pre-existing disclosure requirement; however, issuers may benefit from further clarity in section 4 of the Proposed Policy that the description of climate related risks and opportunities under "Risk Management" will not be subject to the same materiality assessment as in the pre-existing disclosure requirements of the annual information form and the management's discussion and analysis.

Prospectus Disclosure

Q16 – 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?

This question is not applicable to Sun Life.

Phased-in implementation

Q17 - 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.

Q17.1 - 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 transition provision is sufficient as long as the disclosure of Scope 3 emissions is not made mandatory.

Q17.2 - 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?

This question is not applicable to Sun Life.

Future ESG considerations

Q18 - 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 recommend that the CSA regard the Proposed Instrument as a first step toward a broad-based, climate-related financial disclosure regime that will help facilitate Canada's transition to a net-zero economy. Even for experienced institutional investors that are committed to net zero, such as Sun Life, it is a challenge to evaluate companies that have not published an emissions reduction plan to reach interim targets aligned to net zero by 2050. We urge the CSA to work with issuers, the International Sustainability Standards Board and other regulators to determine how to enhance climate-related financial disclosures that encourage companies to disclose their interim targets to reach net-zero carbon emissions.

Further, we believe disclosures that recognize the social impacts of a company's climate change strategy should also be explored, including any commitments to retain, retrain, redeploy and/or compensate workers affected by decarbonization.

With respect to broader sustainability or ESG topics to be prioritized for the future, we would encourage the CSA to regularly monitor the evolving landscape and prioritize topics in line with emerging priorities domestically and globally, and with disclosure developments internationally.