Institute for Sustainable Finance

December 11, 2021

To Whom It May Concern:

Re: Canadian Securities Administrators (CSA) Consultation Paper on Climate-related Disclosures

Background:

The current state of climate-related disclosures is viewed as sorely inadequate and the high proportion of supporters for the Task Force for Climate-related Financial Disclosures (TCFD) recommendations that are financial institutions (FIs) is consistent with their strong need for such information. This sentiment was front and centre in the recent announcement by Canada's eight largest pension funds, responsible for over $1.6 trillion in assets, who issued a joint statement calling for better environmental, social and governance (ESG) and climate-related financial disclosures, supporting both the Sustainability Accounting Standards Board (SASB) and TCFD frameworks.[1] In June 2021, the 10 largest Canadian pensions made a similar statement in response to an SEC request for input.

This increased demand for better disclosures is also evident in a March 2020 newsletter from ESG Global Advisors that illustrates important trends with respect to investor proxy voting, including disclosure requirements.[2] In particular, the document noted that Vanguard and BMO incorporated guidelines designed to support items that enhance better ESG disclosures, and oppose resolutions for companies that do not provide adequate ESG disclosure. Morgan Stanley and BNP Paribas committed to supporting proposals that supported climate friendly strategies and/or improved climate-related disclosures. Finally, BlackRock, Schroders and CIBC identified support for improved climate-related disclosures, with all mentioning the TCFD recommendations. As an illustration of the importance attached to climate-related disclosures, Black Rock noted "the lack of progress the company has made on its climate disclosures" as one of the main reasons underlying its decision to vote against the re-election of Volvo AB's Board Chairman in June 2020.[3]

In light of such demands for more complete and standardized disclosures, in the fall of 2020, the International Financial Reporting Standards (IFRS) released a consultation paper to garner feedback regarding the perceived need for a global sustainability standards board. The response to this process was overwhelmingly positive and in November of 2021, the IFRS announced the establishment of the International Sustainability Standards Board (ISSB), with offices in Frankfurt and Montreal.[4] It is anticipated that these standards will align and build on standards in existing frameworks such as the TCFD and SASB, and that they will gain widespread global acceptance.

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[1] Source: http://pensionpulse.blogspot.com/2020/11/canadas-top-eight-pensions-unite-on-esg.html.
[2] Source: https://www.esgglobaladvisors.com/insights.
[3] Source: https://www.blackrock.com/corporate/literature/press-release/blk-vote-bulletin-volvo-jun-2020.pdf.
[4] Source: https://www.ifrs.org/news-and-events/news/2021/11/ifrs-foundation-announces-issb-consolidation-with-cdsb-vrf-publication-of-prototypes/.

In Canada, the Independent Review Committee on Standard Setting in Canada released a consultation paper in December 2021, outlining key matters related to financial reporting in Canada.[5] One of the recommendations includes creating a Canadian Sustainability Standards Board that would work alongside Canada's existing standards boards, and also liaise with the ISSB to ensure the Canadian perspective is included in international decision making.

The CSA Proposal:

The Institute for Sustainable Finance (ISF) strongly supports initiatives that will improve the completeness, consistency and comparability of climate-related financial disclosures. Making such disclosures a regulatory requirement in Canada is central to achieving these objectives, and time is of the essence.

With this in mind, we generally support the implementation of the proposed CSA climate-related disclosures requirements; although we provide some reservations and suggestions in this comment letter.

We applaud the implementation of a significant portion of the TCFD recommendations, which have quickly become the global gold standard for climate-related financial disclosures. Given the importance of providing such disclosures as soon as possible, we have no objections to the proposed phase in periods (i.e., one and three years for non-venture and venture issuers respectively).

We do however disagree with the decisions to exclude two important components of TCFD reporting: (1) NOT including scenario analysis at all; and, (2) providing issuers with the option NOT to disclose their greenhouse gas (GHG) emissions if they provide an explanation of why they have chosen not to do so.

With respect to scenario analysis, we consider this an important component of identifying companies' exposures to climate risks, and furthermore it is consistent with TCFD requirements, which are quickly becoming the global standards. Excluding this requirement for Canadian companies will not only disadvantage these companies on the global scene, it will not provide capital providers with a full picture of such risks or the confidence that these risks are being properly analyzed and mitigated. In the absence of such information, capital providers often err on the side of caution and adopt a pessimistic view of the risks and opportunities a particular company faces. We do recognize that addressing scenario analysis could be more complicated for companies than some of the other TCFD requirements, and would not want to see this requirement impede the timely implementation of the CSA recommendations. As such, and similar to the recommendations of the Canadian Expert Panel (CEP) on Sustainable Finance, we feel a phased-in approach to this requirement would be a reasonable compromise. We feel providing another year to phase in this requirement for both non-venture and venture issuers would be appropriate.

We also disagree, even more strongly, with providing issuers the "option" to not disclose their GHG emissions if they provide an explanation for doing so. Many firms currently disclose their GHG emissions in Canada. In other jurisdictions such as the EU and the UK, a much higher percentage of firms do so. Such information is essential for capital allocators, regulators and for the companies themselves as we transition to a net-zero economy by 2050. For companies, not having a starting point

[5] Source: https://www.ircsscanada.ca/en/consultation-paper.

measurement for emissions is inexcusable, and severely inhibits the development of legitimate transition plans. Importantly, the lack of availability of such information further complicates data issues for regulators and capital allocators as they plan their own transition strategies towards net-zero. In addition, there is evidence that once firms start reporting GHG emissions, they take actions to reduce them. For example, studies by Downar et al. (2020), and Jouvenor and Krueger (2020), both document significant declines in GHG emissions by newly reporting companies in the 14-18% range, following the implementation of required GHG emissions disclosures by UK-listed companies in 2013.[6]

With respect to some of the additional questions posed in the consultation paper, we provide our responses below:

1. #5 – As mentioned above, there should be NO option not to disclose GHG emissions – they should be mandatory. Further, the disclosure of Scope 1 "and" Scope 2 emissions should be mandatory. Most companies that currently disclose emissions report both Scope 1 and 2 GHG emissions, so there is no reason to provide the option to disclose only Scope 1 emissions. With respect to Scope 3 emissions, we recognize this is more complicated, especially given the current lack of data on Scope 1 and 2 emissions across a broad cross-section of firms. We do however believe the disclosure of Scope 3 emissions is highly desirable, when possible. Similar to the recommendations of the CEP, we advocate a two-year "phase in" period for this requirement.
2. #6 – GHG emissions disclosures should be disclosed in accordance with the GHG Protocol, with no substitute reporting standards permissible. The GHG protocol represents global standards, which are well understood, and that are already used by a strong majority of Canadian reporting issuers.
3. #7 – GHG emissions should be audited to verify authenticity. We recommend a one-year additional phase in period for this requirement.
4. #9 – The ISF believes that the TCFD reporting requirements encompass the most relevant climate-related information. This is consistent with the fact that it is an investor-aligned initiative, and that investor support has grown dramatically for TCFD reporting. For example, by November 2021, there were 2,700 supporters globally (up from 1,500 in September 2020), including financial institutions (FIs) responsible for over $150tr US. By August 2021, there were 94 Canadian official supporters of TCFD (59 of whom were FIs). According to Milani, as of 2020, 42% of S&P/TSX Composite Index issuers reported in alignment with the TCFD recommendations, up from 30% in 2019.[7]
5. #10 – There are numerous anticipated benefits associated with improving climate-related disclosures. Most importantly, this is information that capital providers require, and have been demanding, as discussed above. Aside from the demand for such information by FIs, companies themselves will clearly benefit from such information, as well as the preparation of such disclosures. In particular, the insights will provide valuable guidance for companies as they plan how to govern, manage and develop strategies and business models to deal with the risks and opportunities their company will face in response to climate change.

[6] Sources: "The Impact of Carbon Disclosure Mandates on Emissions and Financial Operating Performance," Downar et al. 2020 (https://www.accounting-for-transparency.de/publication/the-impact-of-carbon-disclosure-mandates-on-emissions-and-financial-operating-performance/); and, "Mandatory Corporate Carbon Disclosure Evidence from a Natural Experiment," Jouvenet and Krueger, 2021 (https://papers.ssrn.com/sol3/papers.cfm?abstract_id=3434490).
[7] Source: "Millani's TCFD Disclosure Study: A Canadian Perspective," Millani. (2021). https://www.tsx.com/resource/en/2672/millani-s-tcfd-disclosure-study-a-canadian-perspective-2021-06-23-en.pdf.

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6. #17 – As mentioned previously, the ISF supports the phase in periods for both non-venture and venture issuers. It is aggressive but manageable, and time is of the essence since this information is critical.
7. #18 – To the greatest extent possible, the standards should be consistent with global standards, including those that are presently being developed by the ISSB of the IFRS. It is highly probable that these standards would incorporate not only the TCFD reporting requirements, but also a significant proportion of SASB reporting requirements (if not all of them). The ISF notes that while TCFD reporting requirements are comprehensive with respect to climate-related matters, SASB reporting is very complementary as it provides more in-depth information on other important and material related ESG issues. The strong demand for both TCFD and SASB reporting is evident in the joint statements by Canada's largest pensions mentioned above, as well as in the proxy voting decisions made by large FIs. Global investor support for SASB standards had grown to 187 firms with $59.5tr AUM by November 2020, approximately double the 2019 number. In response to this demand, there has been dramatic growth in the number of companies referencing SASB standards and/or reporting consistent with the standards. For example, by 2020, there were 1,625 companies making "SASB References," up 260% from 451 in 2019, and there were 556 SASB reporters, up 375% from 117 in 2019. We have seen a similar trend in Canada, and according to Milani, as of 2020, 56% of S&P/TSX Composite Index issuers reported in alignment with the SASB guidelines, up from 36% in 2019, and only 6% during 2018. In short, ISF also supports alignment with the ISSB recommendations (subject to review when they are released), and strongly supports phasing in SASB reporting in addition to the TCFD reporting being considered in the current CSA consultation paper – with a one-year phase in period.

In summary, we support the initiative, with some qualifications and suggestions. We also consider it important to recognize that implementing such regulation should not be considered the end of the journey to provide better climate-related disclosures, but merely the beginning. Beyond implementation considerations, we have recommended above some requirements that should be "phased in" over specified periods. Finally, given that this is a fluid issue, disclosure regulation should continually monitor what is going on in global markets in terms of disclosure standards, including, but not limited to: updates to TCFD and SASB recommendations and requirements; forthcoming reporting requirements according to the ISSB of the IFRS; coordination with a Canadian Sustainability Standards Board (if one is established); as well as other important developments in disclosures.

Yours sincerely,

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and
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