

January 27, 2022

Via Electronic Submission

The Secretary  
Ontario Securities Commission  
[comment@osc.gov.on.ca](mailto:comment@osc.gov.on.ca)

Me Phillippe Lebel  
Corporate Secretary and Executive Director, Legal Affairs  
Autorité des marchés financiers  
[consultation-en-cours@lautorite.qc.ca](mailto:consultation-en-cours@lautorite.qc.ca)

**Re: CSA Notice and Request for Comment – Proposed National Instrument 51-107 – Disclosure of Climate-Related Matters**

---

**OVERVIEW**

The Portfolio Management Association of Canada (**PMAC**), with the assistance of a member working group consisting of CFAs and ESG experts, is pleased to have the opportunity to submit the following comments regarding the CSA's Notice and Request for Comment – Proposed National Instrument 51-107 – *Disclosure of Climate-Related Matters* (**NI 51-107**) (the **Consultation**).

PMAC represents over [300 investment management firms](#) registered to do business in Canada as portfolio managers (**PMs**) with the members of the Canadian Securities Administrators (**CSA**). In addition to this primary registration, most of our members are also registered as investment fund managers and/or exempt market dealers. Some member firms manage large mutual funds or pooled products, and others manage separately managed accounts on behalf of private clients or institutions such as pension plans and foundations. PMAC's members encompass both large and small firms and manage total assets in excess of \$2.9 trillion.

**IMPORTANT CONTEXT AND BACKGROUND**

PMAC's response to the Consultation is from the perspective of portfolio managers as investors, though some of our members have affiliates and/or manage funds that are reporting issuers. Our comments are limited to those pertinent to the interests of investors. PMAC's members are fiduciaries entrusted to manage their clients' assets in the clients' best interests. As asset managers, our members are supportive of measures that increase transparency and that provide readily comparable information to assist them in meeting the clients' investment objectives. We support the policy objectives that the CSA intends to achieve by implementing NI 51-107 and welcome measures that introduce more complete, comparable and consistent climate-related disclosure.

It is clear from the recent UN climate summit in Glasgow (**COP26**) and the creation of the Glasgow Financial Alliance for Net Zero (**GFANZ**) – including both the Net Zero Banking Alliance and the Net Zero Asset Managers initiative - that the financial sector has an

important role to play in helping Canada achieve its climate commitments. Banks (including the large Canadian banks), pension plans, insurance companies and asset managers with over \$130 trillion USD under management have signed onto GFANZ, and demand for climate-related disclosure will only continue to grow. Climate risk is investment risk and represents both physical and transition risk; capital needs to be deployed to help with the transition to net zero.

We note the urgency of implementing measures that will give investors readily available and comparable climate-related disclosure, considering the timeframe for Canada's climate commitments and asset managers' own net zero commitments. While PMAC certainly appreciates the need to balance regulatory burden with enhanced disclosure, there is no time to waste as the carbon budget is set to expire in less than eight years if greenhouse gas (**GHG**) emissions continue at their current rate. Members note the benefits that ESG disclosure can bring to issuers – those that disclose climate-related information are already attracting significant capital.

Broadly speaking, the GFANZ requires signatories to establish science-based interim and long-term goals to reach net zero emissions by 2050 or earlier. Under the commitment made under GFANZ, emission-reducing targets will cover lending and investment activities. This will have an impact on the cost of capital for issuers.

At the same time, PMAC recognizes that mandatory qualitative and quantitative disclosures should only be imposed where there are established standards for providing such disclosures and that reliable data must be available. This is why, despite our awareness of the urgency of climate-related disclosures, we are urging prioritization of certain disclosures while suggesting a phased-in approach where we understand that the methodologies or data sources are still being developed and solidified. We do not believe that this should be an excuse to delay the implementation of mandatory disclosure but rather, that the CSA should carefully monitor when mandating such disclosure will be feasible. We also believe that it is important to set some proactive targets for when mandatory disclosure will come into effect so as not to leave this important issue open-ended.

PMAC supports the CSA's work on the Consultation to foster standardized sustainability-related disclosures to assist investors in making informed decision. We also support the CSA's contemporaneous work on other ESG-related issues and guidance and applaud the CSA's participation in ESG-related initiatives at the International Organization of Securities Commission (**IOSCO**) level.

Subject to the comments set out below, especially with respect to the need for disclosure of progress to net zero targets, PMAC believes that NI 51-107 is generally responsive to investor demands for climate-related data. Provided that the standards are rigorous, comparable, and updated as needed, we believe the proposed disclosure can assist the CSA in meeting its policy goals of improved climate risk disclosure, facilitating an orderly transition to a low carbon economy, and will help to promote the stability of financial markets.

## **KEY RECOMMENDATIONS**

The following are PMAC's key recommendations with respect to the Consultation:

1. **Prioritize mandatory GHG emissions disclosure.** Prioritizing GHG emissions disclosure will provide necessary and comparable data that investors need to make informed investment decisions. This disclosure will allow comparability with the Task Force on Climate-Related Financial Disclosures (**TCFD**) recommendations, which is important from an information and global competitiveness point of view.
2. **Encourage disclosure of net zero emission targets.** While we recognize that it may not be feasible to currently mandate this, issuers should be encouraged to disclose their interim and forward-looking net-zero emissions targets on an annual basis, in accordance with Canada's climate goals. This information is important to empower asset managers to meet their own net zero commitments.
3. **Include sector-specific metrics disclosure to supplement the TCFD framework disclosure.** Sector-specific metrics that are auditable, such as those identified by the Sustainability Accounting Standards Board (**SASB**), should be phased-in or adopted on a voluntary basis for the time being. Since different sectors are impacted in diverse ways by climate change-related risks and opportunities, we believe that sector-specific metrics provide valuable information.
4. **Evaluate the disclosure requirements frequently and streamline necessary amendments.** We believe in a single set of global disclosure requirements around sustainability and believe the CSA will need to monitor developments in this rapidly evolving area. It is important that the CSA requirements remain current with respect to global developments in this area, particularly on the work of international standard setters such as IFRS Foundation, so that information is comparable and consistent across jurisdictions. For areas of disclosure where the methodologies are not yet mature, we urge the CSA to monitor and consult on when that disclosure warrants mandatory inclusion in NI 51-107.
5. **Encourage disclosure of scenario analysis and assumptions.** Investors want to understand an issuer's scenario analysis and how it affects the issuer's target strategies and risk management goals. Recognizing the limitations and complexity of scenario analysis, we nonetheless believe it is important for investors to understand what scenario an issuer is using in order to assess the issuer's credibility and make informed decisions. Some members suggest this disclosure should, at first be implemented on a comply or explain basis or with a time-limited safe harbour until such time as scenario analysis matures sufficiently to warrant mandatory disclosure.
6. **Work to include climate-related disclosure requirements for the private market.** To avoid the risk of assets being divested to the private markets, we urge the CSA to work with the federal and provincial governments as well as other financial regulators to require climate-related disclosure in the

private markets. Though we recognize the CSA may not be able to effect this change on its own, an uneven playing field with respect to climate-related disclosure could result in regulatory arbitrage and reduce access to the information investors require in their efforts to move to net-zero.

These recommendations and others are discussed in further detail in the body of this letter.

## **RESPONSES TO SELECTED CONSULTATION QUESTIONS**

Our members have the following comments on certain questions set out in the Consultation. We have used the numbering found in the Consultation, but for brevity did not include the questions to which members did not respond. As such, the numbering is non-sequential.

### **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?*

We urge the CSA to consider supplementing the mandatory disclosures that are aligned with the TCFD framework with the inclusion of sector-specific metrics, such as those identified by SASB. Since different sectors are impacted in diverse ways by climate change-related risks and opportunities, we believe that sector-specific metrics provide valuable information. PMAC sees value in allowing a phased-in or voluntary approach to these sector-specific disclosures for the time being, to allow the CSA to monitor and respond to the rapidly evolving nature of this space while encouraging the provision of this important information. The impacts of climate change will be felt differently depending on industry sector and there is no “one-size-fits-all” approach that can be effectively implemented to reflect these impacts across the board.

PMAC members that are accustomed to producing TCFD-aligned reports have noted that, notwithstanding their experience, disclosures around Scope 3 GHG emissions and scenario analysis remain in early development and are subject to ongoing evolution. It is for this reason that PMAC is requesting staged or other implementation of these types of disclosure, as more fully set out below.

### **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?*

Members hold divergent views on whether reporting issuers should be required to disclose their scenario analysis as is required under the TCFD.

Members agree that investors want to understand an issuer’s scenario analysis and how it affects the issuer’s target strategies and risk management goals and that the issue of how issuers are transitioning to net zero, and how issuers’ strategic goals will respond to various climate-related risks and opportunities are very useful information. Members do also recognize that scenario analysis has its limitations and that it can be a complex, resource-intensive and iterative process. For many members, scenario analysis disclosure is important to mandate to allow investors to understand what scenario is being used, to

assess credibility and make informed decisions. There is value to investors in knowing whether a company has undertaken scenario analysis or stress testing. Where an issuer has undertaken such analysis, disclosure around the scenarios used, parameters tested, and key assumptions made should be disclosed as these provide investors with significant insight into the rigour with which climate-related risks and opportunities have been integrated into the issuer's oversight framework, culture and operations. Issuers should also disclose how their strategy has or might change to address potential risks and opportunities revealed by the scenario analysis or stress test.

Some widely used transition scenarios include the International Energy Agency (**IEA**) and the Network for Greening the Financial System (**NGFS**) scenarios. The Science Based Targets Initiative (**SBTi**) sets out definitions and best practices for science-based corporate transition target setting which can provide a useful common frame of reference. Additionally, the Intergovernmental Panel on Climate Change (**IPCC**) has published physical risk scenarios that range from "no climate action" to "decisive action" that can enable investors to better assess the extent to which potential physical risks are priced in by markets.

Members urge the CSA to provide information, resources and guidance to issuers to help them navigate these disclosures as well as to specify the limitations of certain quantitative metrics and chosen methodologies that comprise the disclosure.

However, other members believe that, until there is further development and consistency on how to conduct a scenario analysis, that a comply or explain model of disclosure or a time-limited safe harbour may be warranted, with the goal of mandating this disclosure when climate-related scenario analysis methodologies are more mature.

*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?*

PMAC believes that GHG emissions disclosure is important and that the comply or explain model of regulation does not go far enough in this instance. We believe that the CSA should adopt an approach aligned with the TCFD's recently updated implementation guidance around reporting on GHG emissions which is "independent of a materiality assessment"<sup>1</sup>.

- *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?*

PMAC believes that Scope 1 GHG emissions disclosure should be mandatory.

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

PMAC believes that Scope 2 GHG emissions disclosure should be mandatory. However, due to the still-evolving nature of Scope 3 GHG emissions disclosure, it should not be mandatory at this time because the availability of reliable data and the yet-unsettled

---

<sup>1</sup> TCFD October 2021 – Implementing the Recommendations of the Task Force on Climate-Related Financial disclosures

methodologies may be a challenge to calculating Scope 3 GHG emissions. One suggested approach to encourage the disclosure of Scope 3 GHG emissions would be to either phase-in the requirement for and/or provide a safe harbour with respect to some of the quantitative disclosures while the data improves and as methodologies become more standardized. The safe harbour could incentivize disclosure while protecting directors and officers from potential liability provided there are adequate internal controls to support the creation and finalization of the disclosure. Therefore, a phased-in approach to this requirement may be appropriate and this may include a transitional stage where issuers can elect to comply or explain why they have not disclosed, but we reiterate the urgency of providing this GHG disclosure to investors as soon as practicable.

*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?*

PMAC supports mandating the GHG Protocol for all issuers. We believe that the GHG Protocol represents the highest standard of reporting and that adopting it across the board will support comparability. Allowing for different GHG disclosure standards could dilute the usefulness and comparability of this disclosure.

*• 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?*

We believe that the GHG Protocol is appropriate for all issuers, and that all issuers should eventually move to the GHG Protocol to ensure comparability. We believe this will allow for further consistency in reporting and that variance in reporting could hinder the ability for the market and investors to effectively evaluate this type of disclosure.

*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?*

Although this additional regulatory requirement will represent a burden on issuers, PMAC nonetheless believes that some limited form of assurance would provide confidence regarding the Scopes 1 and 2 GHG emissions being reported by issuers. Investors believe this to be material information about the issuer that warrants verification, and that the CSA should move toward external national and international standards, as they are established. While we believe that this disclosure eventually warrants external processes and verification, we nonetheless believe that it would be appropriate to phase-in this requirement.

*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?*

Investors believe that GHG emissions reporting should ideally be included in the issuer's annual financial reporting; this would provide year-over-year reporting and, ideally, some

assurance as to the reliability of the GHG disclosure. However, we believe this requirement should also be phased-in and that it must be balanced against the benefits of providing a safe harbour for Scope 3 GHG emissions disclosure. Members are also comfortable with the provision of GHG disclosures by reference to external documents, provided the information is presented consistently, otherwise the comparability and utility of the information would be compromised.

## **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?*

PMAC believes that disclosures with respect to issuers' progress toward net zero targets, alongside mandatory and comparable GHG Scope 1-2 emissions reporting under the GHG Protocol are most important and should be prioritized. Financial analysts can use this information to calculate net present value (NPV) credits and discounts on business models and valuations, enabling financial markets to flow capital to areas of the economy that are helping to meet targets.

Many asset managers' voting analysis will consider how rigorous GHG emissions reductions efforts are, particularly in carbon intensive industries that are most impacted by an energy transition.

Additionally, where investors have their own net zero goals or targets to meet, understanding the issuer's net zero pathway, performance against net zero targets, how the climate strategy informs capital allocation decision-making, what scenarios companies are using to base their strategy on and how this is managed and overseen are all important data points. This disclosure allows investors to assess whether an issuer is on a trajectory to positively or negatively contribute to portfolio net zero goals. We believe issuer disclosure toward their net zero targets should be encouraged and eventually, mandated. Currently, issuers will not be able to disclose interim and forward-looking targets right away and the ability to do so will require time as well as considerable resources and substantial processes.

## **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?*

PMAC members acknowledge the costs of preparation and calculation of GHG emissions disclosure. Although some members believe that the burden would be heavy on issuers, especially in certain sectors, most members take the view that the benefit to the markets outweighs this cost. Standardizing the requirements and delivery methods of this disclosure as suggested above can help to distribute such burden appropriately. PMAC believes that this disclosure will add important accountability to issuers for their GHG emissions.

*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?*

PMAC believes that venture issuers should be subject to NI 51-107, though a phased-in approach of certain disclosure elements as they are standardized and become more comparable may be justified. We again point to the importance and urgency of this climate-related disclosure for investors and note that the composition of the TSX-Venture Exchange's listed issuers tends to have greater connections to emissions by virtue of being in the energy or mining sectors. Venture issuers may become less attractive investments if they are exempted from NI 51-107.

## **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?*

Non-venture issuers should be required to provide the disclosure in NI 51-107 in their long form prospectuses as soon as the amendments become effective with a phased-in approach for venture issuers. The disclosure of Scope 1 and 2 GHG emissions and planned progress to net zero targets is material to valuation from the time of an issuer's initial listing and investors should not have to wait until the issuer's next financial statement reporting period to obtain this information.

## **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?*

PMAC notes the importance of other climate-related issues, such as water-consumption/conservation/pollution, land conservation and biodiversity. While GHG emissions are one key component of climate-related disclosure, they are not the sole source. Members also note that human capital/employee engagement and wellness factors are increasingly important differentiators for investors and believe that such considerations can further improve transparency, competitiveness and employment practices of Canadian issuers. Encouraging the provision of this important aspect of an issuer's overall risk management processes could be beneficial for all stakeholders.

In order to ensure a level playing field and discourage regulatory arbitrage, we strongly encourage the CSA to review its ability to regulate mandatory climate-related disclosures for large private market issuers. While we understand that the CSA may not have jurisdiction to comprehensively and effectively mandate and/or oversee climate-related disclosure in the private markets, we nevertheless urge the CSA and others to work to, including the provincial and federal governments to update the disclosure requirements in their corporate statutes to close this important gap. Without similar requirements across both public and large private market issuers, there is a risk that issuers would divest to a

private company to avoid making this important disclosure. We encourage the CSA to leverage all methods of levelling the disclosure requirements to assist asset managers in making more informed investment decisions on climate-related matters.

Due to the value of this information to investors, PMAC also supports a phased-in disclosure of issuers' corporate transition strategies which demonstrate the degree to which the issuer is working to limit global warming in alignment with the goals of the Paris Agreement.

## **CONCLUSION**

We would like to thank the CSA for the opportunity to respond to this Consultation. As outlined in our submission, we believe that focusing on ESG data and disclosure will help to meaningfully inform investors and level the playing field for issuers. These are key to achieving the CSA's policy objectives including reducing greenwashing. Subject to our comments herein, including regarding phased-in disclosure requirements and a temporary safe harbour for the disclosure of Scope 3 GHG emissions, we support NI 51-107 as setting out the CSA's regulatory expectations with respect to climate-related disclosure. Continuous monitoring of the ESG disclosure landscape, industry consultation and updates to NI 51-107 to reflect any evolution and developments will be critical to ensuring relevant, comparable, and reliable disclosure requirements. PMAC would be pleased to provide the CSA with any member feedback that might assist with this review.

If you have any questions regarding the comments set out above, please do not hesitate to contact PMAC's General Counsel, Melissa Ghislanzoni [REDACTED].  
Yours Truly,

## **PORTFOLIO MANAGEMENT ASSOCIATION OF CANADA**

*"Katie Walmsley"*

Katie Walmsley  
President

*"Margaret Gunawan"*

Margaret Gunawan  
Director  
Chair of Industry, Regulation & Tax  
Committee,

Managing Director – Head of  
Canada Legal & Compliance  
BlackRock Asset Management  
Canada Limited