Proposal / Comment on
Proposed National Instrument 51-107:
Disclosure of Climate-related Matters

Proposal: *Require listed companies to include TCFD-recommended climate-related financial disclosures in their MD&A, using a CSA-tailored format.*

Background context

The CSA has a pivotal role to play in providing decision-useful disclosures to investors. The Task Force on Climate-Related Financial Disclosures (TCFD) confirmed that investors need to know companies' plans to identify and mitigate any negative financial impacts of climate change, their plans to transition to net-zero, and their plans to capture associated opportunities.

The 2021 Intergovernmental Panel on Climate Change (IPPC) report warns that to avert a climate change disaster, we must reduce greenhouse gases (GHGs) 50% by 2030 and 100% by 2050 ("net zero"). At COP 26, Canada pledged to reduce GHGs 40-45% by 2030. To meet that target, companies must make a similar commitment and take action to fulfill it.

If the CSA required listed companies to file TCFD-recommended climate-related financial disclosures in their MD&A using a CSA-recommended format, it would both provide investors with decision-useful information, and spur corporate action to address the climate emergency and help Canada meet its GHG-reduction pledge.

Location of disclosure

According to CSA National Instrument 51-102F1 Management's Discussion & Analysis, the purpose of an MD&A is to "improve your company's overall financial disclosure by giving a balanced discussion of your company's financial performance and financial condition… *openly reporting bad news as well as good news*." The MD&A should "*discuss important trends and risks that have affected the financial statements, and trends and risks that are reasonably likely to affect them in the future*; and provide information about the quality, and potential variability, of your company's profit or loss and cash flow, to assist investors in determining if past performance is indicative of future performance." We agree that the MD&A is the appropriate location for TCFD-recommended disclosures.

Need for better guidance

Producing TCFD-recommended financial disclosures will be challenging for many companies. The [fourth TCFD status report] in October 2021 acknowledged that: "Companies continue to struggle to quantify the [financial] impacts of climate change … Only 20% of preparers currently disclose impact on financial performance [cash flow and income statement], while 14% disclose impact on financial position [balance sheet]." The CSA has [similar concerns] about Canadian companies' climate-related disclosures:

- Issuers' climate-related disclosures may not be complete, consistent, and comparable.
- Quantitative information is often limited and not necessarily consistent.
- Issuers may "cherry pick" by reporting selectively against a particular voluntary standard and/or frameworks.

Either companies don't want to make TCFD-related financial disclosures, or they don't understand what they are supposed to disclose, or they don't know how to do the appropriate estimates and calculations.

A disclosure form and calculator

The usual way to ensure "complete, consistent and comparable" disclosures / reporting on anything is to provide a form / calculator that provides respondents with a fill-in-the blanks template for the desired information. There are two free, open-source tools that are designed to be used that way.

Financial Impacts of Climate **Form** (FICF): It includes:

- A calculator for the company's current Scope 1, Scope 2 and Scope 3 **GHG emissions**.
- A framework for a rough estimate of the projected impact (Low / Medium / High) of climate-related **risks** on the company's income statement, cash flow, and balance sheet, in the short-, medium- and long-term.
- A rough estimate (Low / Medium / High) of the amount of **capital** required for the company's "Climate-Action Project" to mitigate the above climate-related financial risks and to capture associated opportunities, and a rough estimate of when the capital will be required (in the Short-, Medium- or Long-term).
- A rough estimate of the projected impact (Low / Medium / High) of the financial **opportunities** arising from Climate-Action Project and how they impact the company's income statement, cash flow, and balance sheet, in the Short-, Medium- and Long-term.

A CSA-tailored version of this form would clarify what the desired TCFD-recommended disclosures should look like. The form could be used as the outline for a section in the MD&A for management estimates of how climate change-related risks are reasonably likely to affect future financial statements and what the company is doing about it.

Financial Impacts of Climate **Calculator** (FICC): The above FICF provides *qualitative* disclosures. It describes the financial impacts as Low / Medium / High and the time horizons as Short-term / Medium-term / Long-term. The company defines the meanings of those terms in dollar ranges and time horizons. In case companies desire more *quantified* disclosures, the free, open-source Financial Impacts of Climate Calculator (FICC) may be useful. It includes:

- A calculator for the company's current Scope 1, Scope 2 and Scope 3 **GHG emissions**.
- A calculator for the projected monetized impacts of climate-related **risks** on the company's income statement, cash flow, and balance sheet, over the next eight years.
- A quantification of how much **capital is** required for the company's "Project 50x30" which will reduce the company's GHG emissions 50% by 2030. The project mitigates climate-related financial risks, while capturing associated opportunities. The amount of required capital is estimated and its impact on company financial position over the next eight years is calculated.
- A calculator for the projected monetized impact of climate-related **opportunities,** arising from Climate-Action Project, on the company's income statement, cash flow, and balance sheet, over the next eight years.
- A **cost-benefit analysis** of Project 50x30 to support the company's decision to undertake it.

CSA could work with CPA Canada to tailor a version of FLCC that could be used as an internal planning tool by any company. If the company is not comfortable using it to frame all of its TCFD-recommended disclosures, some of the monetized line items could supplement the above FICF-framed disclosures in the MD&A.

Mapping of CSA disclosures to FICM / FICC

This table shows how both FICM and FICC satisfy TCFD-recommended disclosure requirements, as outlined in the CSA's Proposed National Instrument 51-107.

TCFD-related disclosure requirements in CSA's Proposed Instrument	*How and where FICM and FICC provide each disclosure*
Governance • The board's oversight of climate-related risks and opportunities	• Included in the Governance appendix.

• Management's role in assessing and managing climate-related risks and opportunities	• Included in the Governance appendix.
Strategy • The climate-related risks and opportunities the issuer has identified over the short, medium, and long term • The impact of climate-related risks and opportunities on the issuer's businesses, strategy, and financial planning	• Climate-related risks and opportunities are identified / estimated / monetized in the Revenue Impacts, Expense Impacts, and Balance Sheet Impacts pages, over various timeframes. • The impacts are identified / estimated / monetized in the Balance Sheet Impacts, Cash Flow Impacts and Income Statement Impacts pages, over various timeframes.
Risk Management • The issuer's processes for identifying and assessing climate-related risks • The issuer's processes for managing climate-related risks • How processes for identifying, assessing, and managing climate-related risks are integrated into the issuer's overall risk management	• Both forms contain a superset of the possible risks. in the Revenue Impacts, Expense Impacts, and Balance Sheet Impacts pages. • Described in the description of the project in the Capital Required page, and in the Governance appendix. • Assessed and described in the Governance appendix.
Metrics and Targets • The metrics used by the issuer to assess climate-related risks and opportunities in line with its strategy and risk management process where such information is material • Scope 1, Scope 2, and Scope 3 GHG emissions, and the related risks or the issuer's reasons for not disclosing this information. • The targets used by the issuer to manage climate-related risks and opportunities and performance against targets where such information is material	• A superset of the risks and opportunities is Identified / estimated / monetized in the Revenue Impacts, Expense Impacts, and Balance Sheet Impacts pages. • Scores on managing, tracking and improving Scope 1, Scope 2 and Scope 2 are calculated in the GHG Emissions page. Related risks are identified / estimated / monetized in the Revenue Impacts, Expense Impacts, and Balance Sheet Impacts pages. • The targets for Scope 1, Scope 2, and Scope 3 emissions are on the GHG Emissions page. Targets to manage climate related risks and opportunities are associated with the project.

Note: Appendix A - Mapping to TCFD.in both FICF and FICC has a more detailed mapping of how and where each tool provides the decision-useful information requested for each TCFD-recommended disclosure.

Summary

The proposed CSA-recommended disclosures of climate-related matters would be included in a company's MD&A. Therefore, it would be publicly available in the CSA's System for Electronic Document Analysis and Retrieval (SEDAR). It would be updated annually. Some of the information might also be included or referenced in the company's Annual Information Form (AIF).

The disclosures in the MD&A would be framed by a CSA-tailored version of the Financial Impacts of Climate Form (FICF). CSA would work with CPA Canada to create a tailored version of the Financial Impacts of Climate Calculator (FICC), for use as an internal planning tool by company management. Some of the monetized and quantified estimates generated by FICC could be used to supplement FICF-based disclosures.

If the Proposed Instrument came into force by June 30, 2022, it would accelerate the provision of decision-useful climate-related information for investors, as well as signal CSA's support for urgent action on the climate emergency—it would accelerate and scale corporate efforts to support Canada's drive to net-zero. With the availability of a CSA-tailored version of FICF and FICC, June 30 would be a reasonable accelerated implementation date.

Submitted on behalf of:

Bob Willard
Chief Sustainability Champion and Founder, Sustainability Advantage
[redacted]
www.sustainabilityadvantage.com
"Resources to accelerate our sustainability journey"