

January 17, 2022

Alberta Securities Commission  
Autorité des marchés financiers  
British Columbia Securities Commission  
Financial and Consumer Services Commission, New Brunswick  
Financial and Consumer Affairs Authority of Saskatchewan  
Manitoba Securities Commission  
Nova Scotia Securities Commission  
Nunavut Securities Office  
Office of the Superintendent of Securities, Newfoundland and Labrador  
Ontario Securities Commission  
Office of the Superintendent of Securities, Northwest Territories  
Office of the Yukon Superintendent of Securities  
Superintendent of Securities, Department of Justice and Public Safety, Prince Edward Island

Comments for [comment@osc.gov.on.ca](mailto:comment@osc.gov.on.ca) and [consultation-encours@lautorite.qc.ca](mailto:consultation-encours@lautorite.qc.ca)

**RE: Canadian Securities Administrators consultation on climate-related disclosures, NI 51-107**

Dear Sir or Madam,

Thank you for the opportunity to provide expert environmental management insight on the consultation on climate-related disclosures published by the Canadian Securities Administrators on 18 October 2021 as NI 51-107.

**Our Expertise and Experience**

The Collaboration is a niche cross-sector group of organizations, representing private sector interests, with insight from academia. The entities involved are a subset of a larger cross-sector group representing 16 different sectors, which we called G16. G16's purpose was to provide market feedback during the revision of an international standard for Environmental Management Systems (an EMS), ISO 14001. This standard was republished in 2015. As a result of this stakeholder engagement process, the Canadian mirror body was provided with significant insights that our delegates used as part of the Canadian position. Many of these were captured in the revised standard. G16 meets periodically with a focus on the standard, while the smaller group, The Collaboration, focuses on the broader opportunity to demonstrate the value proposition of a robust, credible, and reliable EMS through innovation.

Members of The Collaboration include subject matter experts in environmental management, with a combined knowledge base covering decades of experience with practical, policy and academic expertise.

It is our contention that real environmental improvement enabled by the existence of a robust, credible, and reliable Environmental Management System is essential if the needs of the financial community for disclosure are to be met.

## The Trends and Demands for Disclosure

Mark Carney's pivotal speech to Lloyd's of London in September 2015 heralded a sea change in the financial industry's demand for disclosure on climate issues. It was not the first call to action by a financial notable, Sir Nicholas Stern preceded this, but it galvanised action led by the Financial Stability Board (FSB) at the behest of the G20.

In any field, financial, scientific, or other, the most effective disclosures are:

- Consistent - in scope and objective across the relevant industries and sectors;
- Comparable - to allow investors to assess peers and aggregate risks;
- Reliable - to ensure users can trust data;
- Clear - presented in a way that makes complex information understandable; and
- Efficient - minimising costs and burdens while maximising benefits.

### (1) TCFD Recommendations

The Collaboration supports disclosures aligned with the TCFD.

In 2018 The Collaboration became aware of the Task Force on Climate-related Financial Disclosures (TCFD). We recognized the importance of this initiative, noting that it was backed by the FSB and the G20. While it is essential that CSA and others understand that **an EMS requires an organization to consider all environmental issues**, we understand the current global focus on climate-related financial disclosures, given the effect on the financial markets. We recognize that integrating environmental criteria into financial instruments and products is at a critical juncture, especially noting the fact that while the focus is on climate-related risks, climate change is considered the fifth most critical risk by the Stockholm Resilience Centre. This is shown in their image of boundary conditions, shared in Figure 1.

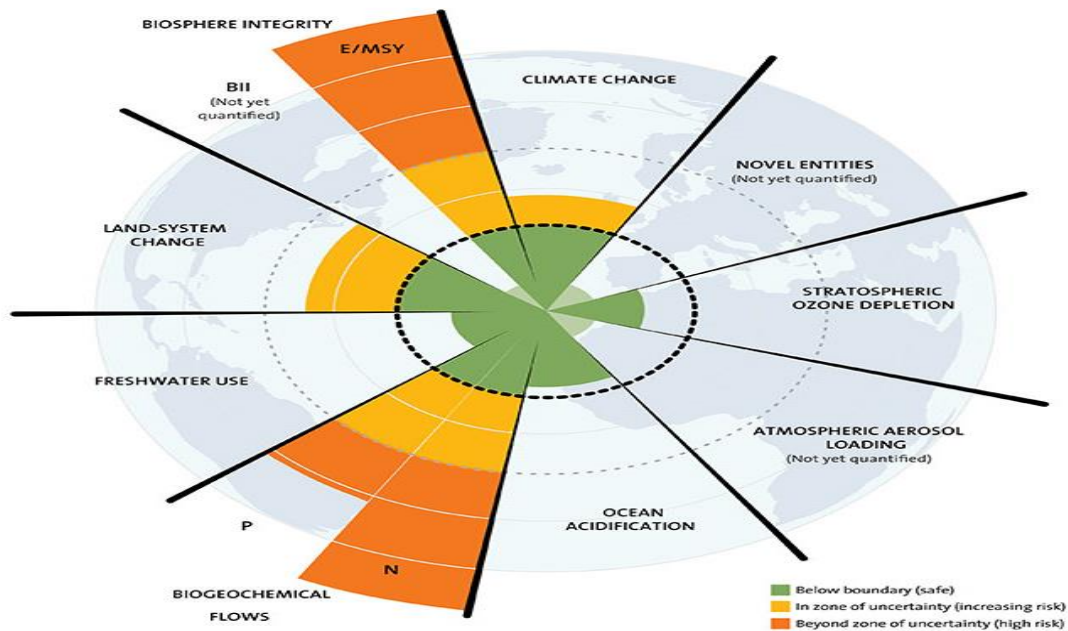


Figure 1 Credit: J. Lokrantz/Azote based on Steffen et al. 2015

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We have been tracking reporting to the TCFD since the first published status report. Across all industry sectors, there is room for improvement, and we note there are four specific weaknesses, which is shown in Figure 2. We note the trend to make reporting using the recommended disclosures in the TCFD or integrating elements of the TCFD in national reporting activities mandatory.

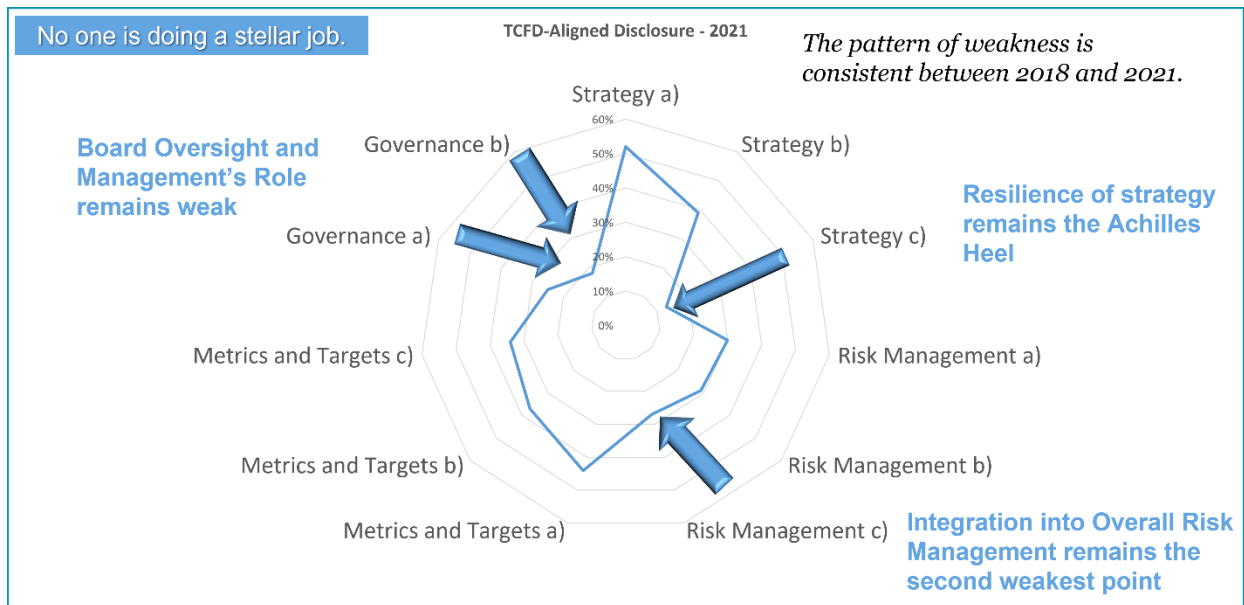


Figure 2: Weaknesses in the All Industry TCFD Reporting derived from the 2021 Status Report, The Collaboration

A robust, credible, and reliable EMS could enable a reporter to benefit significantly, which also would bode better for stakeholders, including investors.

## (2) Materiality

As noted by the International Federation of Accountants (IFAC), the "concept of materiality is a filter through which management sifts information." "Whether information is material is a matter of judgement."

Information that supports the judgement process includes quantitative and qualitative factors. Too much information may result in 'clutter', and too little may expose the company and the investor to risk.

Global markets are experiencing a rapid shift in what is considered material. While any environmental issue offers the potential for risk *or* opportunity, markets are rapidly expanding their interest to consider non-financial issues under the mantle of "ESG" issues, "Environmental, Social, and Governance" issues.

Providing investors with decision-useful information is best served by an organization that has adopted an Environmental Management System (EMS). As ISO 14001 is the de facto international consensus-based standard, it serves as the framework upon which an organization can establish, implement, maintain, and continually improve its environmental performance. We note that the chemical industry's Responsible Care™ programme and the European Eco-Management Audit Scheme (EMAS) are both founded in the international standard.

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Managing environmental risks and opportunities through the presence of a robust, credible, and reliable EMS offers value to the organization by enabling a holistic business approach to improve its environmental performance. An EMS provides objective evidence of an organization's environmental performance and commitment to improvement.

Key elements in an EMS include:

- strategic direction and leadership supported by an environmental policy
- an understanding of context, including the needs and expectations of stakeholders
- a determination of the environmental impacts that the organization has on the environment, *and in turn the effects that the environment is having on the organization*
- the associated risks and opportunities
- objectives to meet internal and external commitments
- understanding and meeting compliance obligations
- processes to ensure that an organization meets or exceeds its intended outcomes, including a life cycle perspective and emergency situations
- communication with external stakeholders
- regular auditing of environmental performance
- reporting to top management
- continual improvement

It is worth repeating that the commitment to an EMS requires an organization to manage **any** environmental issues that are relevant to their business. Consequently, organizations with an EMS have the potential to be better managed environmentally and financially whilst posing a lower risk than organizations which have not adopted an EMS. This of course includes the opportunity to accelerate climate action and enhance reporting, which was in part the motivation behind our initiative [“Are You Climate Ready?”](#) (AYCR). As the primary reason for this submission is to address specific issues articulated in NI 51-107, explanation of AYCR and its value in terms of the TCFD, has been reserved for and shared in an Informative Annex.

What is critical is the need for organizations and investors alike to evolve a common understanding of what is environmentally significant and how it affects that which is deemed material.

We would like to bring to your attention to another ISO standard that is soon to be published on green finance. It offers a broad perspective on environmental criteria, and the criteria are not limited climate-related issues. Like ISO 14001, it addresses *any* environmental issue. The following is adapted from the draft ISO standard, ISO 14100.

### **Environmental Significance and Materiality**

An EMS requires an organization to determine which environmental impacts are significant, relative to its operations. This insight is enabled by determining the cause-and-effect relationship between what it does or has and the environment. Activities, products, and services are examined to identify what its environmental aspects are and from there, what the impacts are. The organization then determines which impacts are significant.

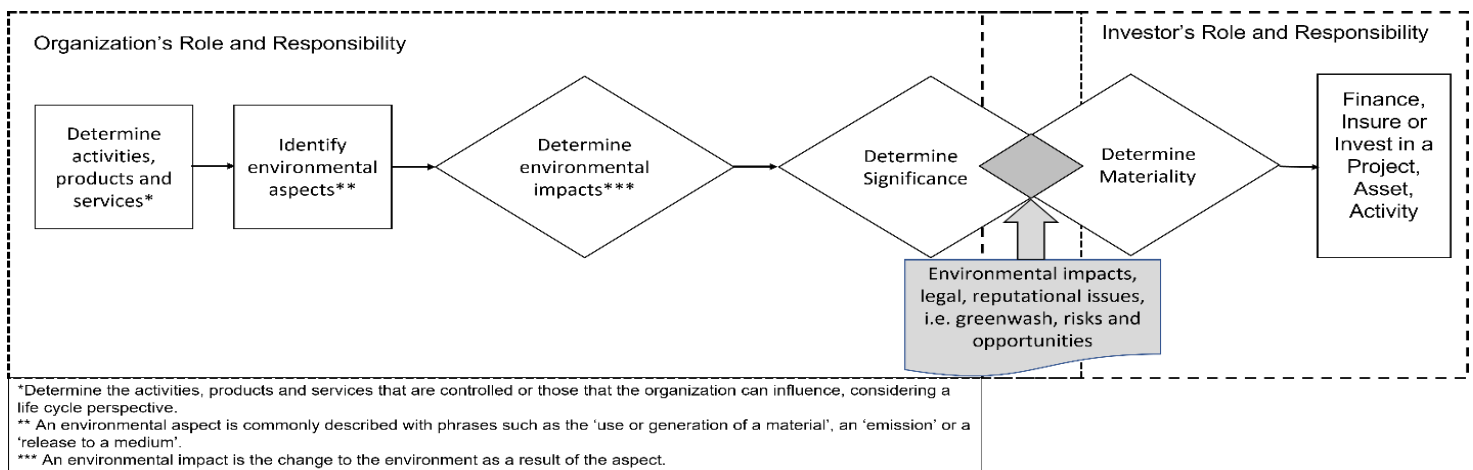
Significance is the term that environmental management experts and stakeholders use to describe what matters environmentally or ecologically. Significance is often seen as a complex concept that requires differing levels of

scientific, technical or management knowledge. There is no single method for determining significant environmental aspects or impacts. However, the method and criteria used should provide consistent results.

Environmental criteria are the primary and minimum criteria for assessing environmental aspects and determining which are significant. Criteria can relate to the environmental aspect (e.g., type, size, frequency) or the environmental impact (e.g., scale, severity, duration, exposure). Impacts can be event-related or acute, or they may be chronic, and may be the result of accumulated impacts that have widespread impacts. As impacts are contextual, they can either occur in a small, localized area or be widespread with regional, national, or global consequences.

The determination of materiality, just as significance, is not an exact science. Just as there is no single method, no exact science, for determining environmental significance, the same applies to the determination of materiality. Both require information that needs to be assessed objectively and by good judgement.

Figure 3 shows the relationship between these concepts.



*What is important to understand is that the determination of what is environmentally significant is independent of materiality, whereas materiality is dependent on understanding what is environmentally significant, whether the focus is on ESG, climate change, GHGs, or any environmental issue.*

### (3) GHG Emissions

We believe it is important to table a few comments on this matter. For one, while NI 51-107 addresses the GHG Protocol, which we acknowledge is a widely referenced document, there is also the ISO 14064 series of standards that are understood to be comparable to the GHG Protocol. It is important to recognize that many carbon pollution pricing regulations in Canada are designed to align with or build on ISO standards such as ISO 14064. Rather than asking companies to justify following processes other than the GHG Protocol, letting them document which one they follow may be more appropriate for the Canadian market. Additionally, as there are other mechanisms that require or solicit disclosure, we support the proposal to allow issuers to incorporate GHG emission disclosures by referencing other public reports. This would reduce adding unnecessary costs onto issuers.

We recommend that issuers be required to disclose Scope 1 and 2 emissions, which are material to their operations. There are consistent and reliable methodologies available to accomplish this now. Methodologies to quantify Scope 3 emissions are evolving, hence allowing the organization to address this as an option is appropriate.

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Many companies already report their Scope 1 emissions over 10,000 tonnes per annum per facility to the federal GHG Reporting Program (GHGRP) now. A company should have the option of having the GHGRP automatically transmit this information to the CSA to avoid errors and achieving reporting efficiencies.

Disclosing Scope 1 and 2 would also align well with the TCFD Maturity Matrix's Intermediate Level. While a scenario analysis can offer useful insight, as with Scope 3, there is no consistent mechanism for forecasting the future. While we note the predilection for prediction and stability in financial markets, climate change is characterized by unpredictability and instability. The Collaboration provides connections to tools that can enhance a better understanding of the potential for scenario analysis, which is noted in our Informative Annex.

## TCFD RECOMMENDATIONS\*

In order to provide decision useful information about your climate related risks and opportunities, what are you already disclosing in your financial filings?

\*those disclosures in bold are the specific recommendations made by the Task Force.

The maturity map is designed to enable you to assess what you are currently doing and how you can advance to a leading position. It considers each element of the TCFD recommendations, providing guidance on how to provide a full and comprehensive response.

Disclosures in financial filings	Limited disclosure of the TCFD recommendations	Moderate disclosure of the TCFD recommendations	Full disclosure of the TCFD recommendations
<b>Governance</b>	<ul style="list-style-type: none"> <li>The board's oversight of climate-related risks and opportunities.</li> <li>Management's role in assessing and managing climate-related risks and opportunities.</li> <li>A published policy or commitment statement on climate change.</li> </ul>	<ul style="list-style-type: none"> <li>A statement on how the board is actively considering climate-related risks and opportunities on a regular basis.</li> <li>Measures to increase board knowledge on climate related risks and opportunities such as compulsory training or use of an expert advisory board.</li> <li>A named individual or committee responsible for climate change at board level.</li> <li>Clear consideration of physical, transition and liability risks.</li> <li>Commitment to reducing or avoiding impact on, and of, climate change, with short, medium and long term targets.</li> </ul>	<ul style="list-style-type: none"> <li>Capacity and competence of the board to respond to climate-related risks and opportunities effectively.</li> <li>Climate-related risks and opportunities are integrated into standard board agendas.</li> <li>Full and clear consideration of physical, transition and liability risks over short, medium and long term time horizons.</li> <li>Financial incentives for executives on progress towards achieving short, medium and long term climate targets.</li> </ul>
<b>Strategy</b>	<ul style="list-style-type: none"> <li>Operational greenhouse gas (GHG) emission reductions.</li> </ul>	<ul style="list-style-type: none"> <li>Climate-related risks and opportunities the organization has identified over the short, medium, and long term.</li> <li>The impact of climate-related risks and opportunities on the organization's businesses, strategy, and financial planning.</li> <li>Involvement in domestic and international efforts to mitigate climate change.</li> </ul>	<ul style="list-style-type: none"> <li>The potential impact of different scenarios, including a 4°C, a 2°C and a 1.5°C scenario, on the organization's businesses, strategy, and financial planning.</li> <li>The organization's internal carbon pricing strategy.</li> <li>Vocal advocacy for action on climate change and collaboration with peers and other stakeholders to achieve change.</li> </ul>
<b>Risk management</b>	<ul style="list-style-type: none"> <li>Acknowledgement of the need to assess and respond to climate-related risks.</li> </ul>	<ul style="list-style-type: none"> <li>The organization's processes for identifying and assessing climate-related risks.</li> <li>The organization's processes for managing climate-related risks.</li> </ul>	<ul style="list-style-type: none"> <li>How processes for identifying, assessing, and managing climate-related risks are integrated into the organization's overall risk management.</li> </ul>
<b>Metrics and targets</b>	<ul style="list-style-type: none"> <li>Scope 1 and Scope 2 GHG emissions.</li> </ul>	<ul style="list-style-type: none"> <li>Scope 1, Scope 2 and, if appropriate, Scope 3 GHG emissions, and the related risks.</li> <li>Measurement methodologies for these are clearly defined and in line with recognised guidance.</li> <li>The organization's quantified targets to reduce GHG emissions in relative or absolute terms (Scope 1, 2 and/ or 3) and performance against these.</li> </ul>	<ul style="list-style-type: none"> <li>The metrics used to assess climate-related risks and opportunities in line with strategy and risk management process.</li> <li>The targets used to manage climate-related risks and opportunities, including use of science based targets, and performance against these targets.</li> <li>Assurance of reported GHG emissions under International Standard on Assurance Engagements (ISAE) 3410, Assurance Engagements on GHG Statements.</li> </ul>
	Beginner	Intermediate	Leader

As well, as this issue is global and rapidly evolving, national considerations must be considered in context with primary trading partners, so that Canada is seen as being a serious participant.

We appreciate the opportunity to share our experience, expertise and insights on NI 51-107 and look forward to the outcome of this process. Should you have any questions, please do not hesitate to contact us.

Lynn Johansson B.E.S. (Hons), M.Sc., FRSA  
Catalyst for The Collaboration



**Informative Annex**

[“Are You Climate Ready?”](#) offers a *systems approach* designed to accelerate climate action through behaviour change, better environmental management, innovation, and collaboration.



It supports employees with behaviour change to become climate ready. The mechanism is referred to as AYCR 1. Being climate ready can lead to positive spillover in the organization they work for to reduce risk and find opportunities.

The presence of a robust, credible, and reliable Environmental Management System (EMS) aligned with ISO 14001 enables the organization to accelerate climate action. The objective evidence from the EMS enhances the organization’s confidence and can be used to report to stakeholders, including governments and the investment community by addressing the recommended disclosures from the Task Force for Climate-related Financial Disclosures (TCFD). AYCR 2 provides insight that enables a self-assessment process linking the two frameworks together.

This insight from an EMS also enables the organization to decide which Sustainable Development Goals at the target level are important to them. Commitments are used to determine what innovation is needed to meet the targets and is supported through a business ecosystem designed to foster local, national, and international collaboration. AYCR 3 offers support tools, learning programmes, and access to innovative solutions through Project Drawdown and other sources. AYCR has built an Ecosystem approach to help organizations link to complementary tools, such as En-ROADS.

As an example, En-ROADS is a system modelling tool that offers a fast, powerful climate simulation tool for understanding how organizations can achieve climate goals through changes in energy, land use, consumption, agriculture, and other policies. The simulator focuses on how changes in global GDP, energy efficiency, technological innovation, and carbon price influence carbon emissions, global temperature, and other factors. It is a free to use tool, which is gaining popularity. It could be useful to enable conversation between issuers, regulators, and the investment community.

In AYCR 4, data from subscribers is shared, anonymized, and aggregated to enable the discernment of patterns and trends showing strengths and weaknesses. If the other tools shared in the Ecosystem do not address an area of

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weakness, The Collaboration will search for one, collaborate with others to create what is needed, or consider the development on its own.

AYCR is shared only to serve as an example of how organizations can improve their performance, lower their risk, and consequently lower the risk to investors, and enhance opportunity.