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January 31, 2022

VIA EMAIL

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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
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Re: CSA Notice and Request for Comment - Proposed National Instrument 51-107 *Disclosure of Climate-related Matters* (the "Proposed NI")

The Canadian Advocacy Council of CFA Societies Canada[1] (the "CAC") appreciates the opportunity to provide comments on the following specific questions with respect to the Proposed NI.

[1] The CAC is an advocacy council for CFA Societies Canada, representing the 12 CFA Institute Member Societies across Canada and over 19,000 Canadian CFA Charterholders. The council includes investment professionals across Canada who review regulatory, legislative, and standard setting developments affecting investors, investment professionals, and the capital markets in Canada. Visit www.cfacanada.org to access the advocacy work of the CAC.

CFA Institute is the global association of investment professionals that sets the standard for professional excellence and credentials. The organization is a champion of ethical behavior in investment markets and a respected source of knowledge in the global financial community. Our aim is to create an environment

As a general note, we are strongly supportive of setting consistent standards for the disclosure of climate-related matters for reporting issuers, thereby improving the readability, consistency and utility of disclosure for investors and other market participants. In addition, we would note that given the world-wide commitments to achieve net zero portfolios by 2050[2], it is incumbent on issuers to provide comparable information on the carbon emissions and intensity of their businesses to enable carbon-related investment decision-making, risk assessment, and in order to roll up the necessary information from individual issuers at a portfolio level. As a result, even absent regulatory intervention, there will be increasing pressure on issuers to provide the type of information discussed in the Proposed NI. This will be further encouraged in many global markets (including Canada) by the IFRS Foundation's creation of the International Sustainability Standards Board (ISSB)[3] and its forthcoming sustainability-related disclosure standards.

Responses to Select Consultation Questions

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?*

While we cannot directly comment from the perspective of a reporting issuer, we note that disclosures consistent with the TCFD recommendations have quickly become global best practice, together with requirements to calculate GHG emissions in accordance with the GHG Protocol. While we understand that these requirements are just being implemented now, and thus may be incrementally time consuming and resource intensive for those issuers who have chosen to not already take action, we believe these are increasingly global standards expected by investors, and it is important that all reporting issuers begin to prepare for these requirements now. We understand that issuers that are setting up the infrastructure to provide the data discussed in the Proposed NI have already or are setting up systems to report in accordance with the TCFD recommendations and the GHG Protocol.

Disclosure of GHG Emissions and Scenario Analysis

2. *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?*

Please see our response to Question 1 above.

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[2] Net Zero Asset Managers Initiative. Online: https://www.netzeroassetmanagers.org/#

[3] International Sustainability Standards Board. Online: < https://www.ifrs.org/groups/international-sustainability-standards-board/#about>

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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?*

Implementation of scenario analysis will impact differently sized issuers and their attendant businesses differently and may not provide investors with highly investment decision-relevant data in all cases. In addition, the cost of analysis may be prohibitive for certain smaller issuers to produce as many will need to rely on outside consultants rather than use of in-house expertise or resources. It is important to balance the cost of providing this information for issuers against the information users' benefit of receiving the information, when the associated cost for some issuers might be better spent on other disclosure-related initiatives or on other climate/transition-related corporate initiatives.

Rather than allowing issuers wide discretion on the choice to implement scenario analysis, we believe it is necessary to segment certain groups of issuers that should be required to provide scenario analysis in the near-term, particularly for those issuers that are likely already preparing to do so. For example, large issuers in industries such as financials are already considering how to implement these requirements and obtain the necessary information from their clients and businesses. We would suggest the exclusion of venture issuers from the requirements at this time, and segment industries to require scenario analysis in the near-term from those issuers in industries with either high carbon emission intensity or where the effects of climate change or transition will have material effects on the value of the company and/or the viability of its business(es). Scenario analysis is key for these industries to better understand their own risks, and to communicate this risk to investors.

We note that additional specificity should be provided with respect to the types of scenario analysis that are contemplated to be required or recommended by regulators. We expect that useful scenarios will differ by industry, i.e. the appropriate analysis for an energy company will differ from that of an automotive company, which will in turn differ from a P&C insurance company. The required analysis could potentially be designed to differ by different industries or sectors. Regardless of industry, the specific scenario inputs used in analysis and the underlying assumptions should be disclosed by the issuer as different inputs and scenarios will result in different projected impacts, and will not result in comparable information without disclosure of these details.

One area where scenario analysis should be required is to the effect on the issuer of the price of carbon. Canada has a clearly articulated federal carbon tax strategy and issuers with facilities or operations that are subject to a carbon tax as part of the Output Based Pricing System under the Greenhouse Gas Pollutions Pricing Act or the provincial equivalent should be required to disclose the financial impact (such as through projected net income, EBITDA or Funds Flow sensitivity) of a rising carbon tax (i.e., for each $10/tonne increase in the price of carbon what is the projected dollar impact to net income, funds flow or EBITDA).

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

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

• 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?

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

• 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?

The disclosure of GHG emissions is important and we do not believe issuers should have a "comply or explain" option for core (Scope 1 and Scope 2) emissions where each are material in the context of the issuer and the operation of its business. Issuers should be required to disclose both Scope 1 and Scope 2 GHG emissions, as we do not see this as an undue burden placed on issuers to provide Scope 2 emissions data in addition to Scope 1.

We agree that while Scope 3 GHG emissions are important information, in particular for companies where Scope 3 emissions outweigh their combined Scope 1 and 2 emissions, it is likely too early to mandate disclosure of those emissions for a broad cross-section of issuers, with the methodology for the tabulation or accurate estimation of emissions still being determined for some industries and the current lack of comparability of Scope 3 emissions amongst some issuers that do currently estimate or calculate and disclose a metric. In future, after issuers have had some experience with the tabulation and disclosure of Scope 1 and Scope 2 emissions, and the methodologies for tabulation or estimation of Scope 3 emissions improve, it may be possible to further study the viability of mandating Scope 3 emissions for issuers. **We would note however that this area of knowledge and standards is advancing quickly, and that regulators should seek to establish ongoing connectivity with standards and methodological development in this area to ensure regulatory policy efforts and issuer disclosure requirements remain well-informed. We would strongly encourage regulators to maintain a nimble policy footing towards these developments and their integration into this Proposed Instrument and related guidance in future, such as through a standing CSA policy committee specific to these matters.**

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.

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• *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?*

• *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?*

• *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 would support a requirement to use, as a minimum standard, the GHG Protocol, which has broad consensus and support and would provide comparability across companies and industries. Certain industry-specific ISO measures, if more stringent than the GHG Protocol, could be used for those sectors if they provide a higher degree of certainty or information; however, these standards should still be comparable to the GHG Protocol and should only be allowable in such cases where the industry-specific standard is widely adopted, at least as rigorous in approach to the GHG Protocol, and with a disclosed method of comparability to the GHG Protocol.

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?

Yes, there should be a minimum requirement for limited assurance on reported GHG emissions data. Recent revisions to various sustainable finance principles have updated assurance of GHG emissions from being ‘highly recommended’ to ‘required’ (e.g., ICMA’s Sustainability Linked Bond Principles). We understand that any level of assurance has an added cost to issuers and at present there is a material delay in receiving assurance due to a backlog among knowledgable assurance service providers; however, with the delayed implementation of the NI, assurance service providers should have sufficient time available to develop the necessary knowledge and resources where required, clear the current backlog, and to prepare for impending regulatory changes.

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?

Any required GHG disclosure should ultimately form part of an issuer’s continuous disclosure record and be included in any consideration of combining a company’s MD&A and AIF (as considered in proposed changes to NI 51-102). Reference to a separate document containing the required disclosure, such as a broader sustainability or climate report could be an acceptable method of disclosure, provided there is a hyperlink or other ability for readers to easily access the information. However, consideration should be given to whether such reference could then scope the entirety of the separate referenced document into an issuer’s continuous disclosure record, which might constrain an issuer’s willingness to provide supplemental voluntary disclosures in such a document. We would suggest that the inclusion in the disclosure record in such a case be limited to the direct information referenced and the scope of required disclosure.

Usefulness and benefits of disclosures contemplated by the Proposed Instrument

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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?

There is much climate-related information that is important for an investor's investment and voting decisions, including specific information on an issuer's physical risks, transition risks and potential climate-related liabilities. Coming out of COP26, there has been a significant increase in the commitment from investors (asset owners and asset managers) globally to decarbonize their investment portfolios and align to net zero portfolios by 2050 in line with the Paris Agreement. This includes yearly decarbonization targets up to 2030. Industry alliances committed to net zero investment portfolios by 2050 include the Net Zero Asset Managers Initiative, currently with commitments from 220 managers and $57T USD in AUM, and the Net Zero Asset Owners Alliance currently with commitments from asset owners with $10T USD. Foundational to creating a net zero portfolio are the underlying carbon metrics provided either directly by the underlying issuers or estimated by carbon data providers. If this data is not disclosed by issuers, investors and data providers will estimate this data. This generally comprises an industry average that is aligned to the revenues of the firm. This can be an overestimate (or underestimate) of the actual emissions of a company. To ensure that investors have the most precise data with which to make investment decisions, carbon metrics (and all climate change related data) provided by the issuer is highly recommended and can prove to be beneficial to the company as opposed to the market merely assuming this data.

Looking more holistically at disclosure, any materiality assessments the issuer has undertaken on a broader ESG-related basis would also be of interest, including financial sensitivies (such as through net income, EBITDA, or funds flow) to changes in carbon taxes. Any net-zero commitments from issuers are also of investor interest and should include related targets, periodic progress to targets, and should disclose the expected pathway(s) to net zero including any carbon offsets needed/used or expected to be needed/used.

If an issuer is completely changing its business model in response to climate or transition-related considerations, there are likely a host of other changes and a broader scope of issues that would require disclosure under any materiality qualifier.

Investors are also generally concerned with the social dimensions of government, regulatory, and issuer responses to climate change and transition-related issues – broadly captured in consideration of the concept of a 'just transition'. This particularly includes consideration of Indigenous interests, which can sometimes require balancing with the most erstwhile expedient economic or policy pathway to climate or transition issues. For example, if a reporting issuer is Indigenous-owned or has inputs from Indigenous-owned businesses or energy production (which due to remoteness, might be more carbon intensive), there ought to be additional consideration given to the balancing of excess emissions with the attendant Indigenous economic development and social benefits. As a general concept, the CSA and policymakers should consider the social externalities of policy and regulatory choices, and should work in consultation and

cooperation with Indigenous peoples and historically marginalized communities to ensure that responses to climate and transition concerns are just.

Phased-in implementation

17. 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.

- *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?*
- *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?*

We agree with the phased-in implementation based on non-venture or venture issuer status. While the transition timelines on their face seem lengthy for the final phase in, we do understand the disclosures may be difficult for some issuers to produce, and that when the disclosures are currently provided, they are not often provided on a timely basis. There are few Canadian reporting issuers that are currently able to provide emissions disclosures within 60-90 days from year-end. Further information should be gathered from reporting issuers directly on the timing requirements, but we believe that if the information is expected to be provided by the end of Q1, it is unlikely that the emissions data would be from the immediately preceding year end, and could thus be 15 months or more out of date. It is important that companies not provide stale data just to meet the timing deadlines set out in the Proposed NI.

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?

There are a number of other sustainability and ESG-related disclosure topics that should be prioritized for the future, many of which will vary depending on investor needs and the materiality of these issues in their impact on various issuer sectors and different regions. Within these topics we would include consideration of the unique and urgent demands of Indigenous reconciliation, as well as consideration of requiring wider sustainability-related disclosure consistent with the SASB Standards (now maintained as part of the Value Reporting Foundation). We would also suggest some consideration of issues contemplated by other reporting frameworks and standards such as the GRI Standards

that highlight the double materiality of ESG issues to an issuer[4], net zero emissions requirements as well as social and governance factors in this list.

The CSA should also monitor international sustainability-related reporting developments from the IFRS Foundation and the newly-formed International Sustainability Standards Board and also the European Financial Reporting Advisory Group (EFRAG). As stated previously, we would encourage the CSA to adopt a nimble policy footing relating to these matters, such as through the formation of a standing and dedicated CSA policy committee.

Concluding Remarks

We support efforts to further develop issuer disclosure of climate-related matters in Canada. While it may be somewhat incrementally costly for issuers to be mandated to provide Scope 1 and Scope 2 emissions information, the global commitments that have been made by governments and coalitions of both issuers and investors will require such information to be provided in the near-term. It is important that any such information be provided using standardized methodologies and formats for comparability and consistency. We also look forward to participating in future consultations involving other sustainability and ESG-related matters as disclosure on climate-related matters is but one piece of the puzzle.

We thank you for the opportunity to provide these comments and would be happy to address any questions you may have. Please feel free to contact us at cac@cfacanada.org on this or any other issue in future.

(Signed) *The Canadian Advocacy Council of*
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[4] Double materiality being the impact of the environment and society on the issuer as well as the impact of the issuer on the environment and society.