Alberta Securities Commission

January 14, 2022

Autorité des marches 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

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Re: Proposed National Instrument 51-107 *Disclosure of Climate-related Matters*

Dear Sir/Madam:

Institutional Shareholder Services (ISS) thanks the Canadian Securities Administrators (CSA) for the opportunity to provide comments on Proposed National Instrument 51-107 *Disclosure of Climate-related Matters* (the Proposed Instrument).

ISS Introduction

ISS is the world's leading provider of corporate governance and responsible investment solutions, market intelligence and fund services, and events and editorial content for institutional investors and corporations, globally. We empower investors and companies to build for long-term and sustainable growth by providing high-quality data, analytics and insight.

ISS ESG, ISS' responsible investment arm, delivers differentiated sustainability services and a suite of solutions for over 1100 global clients spanning asset owners, asset managers, hedge funds, and asset servicing providers. ISS ESG enables investors to develop and integrate responsible investing policies and practices, engage on responsible investment issues, and monitor portfolio company practices through screening solutions. We also provide climate data, analytics, and advisory services to help financial market participants understand, measure, and act on climate-related risks across all asset classes. In addition, ISS ESG delivers corporate and country ESG research and ratings, enabling its clients to identify material social and environmental risks and opportunities. As such, ISS ESG extensively uses public company reporting (including sustainability reporting) as one of the main sources of information.

Through our Governance Solutions business unit, we provide our institutional investor clients with objective governance research and voting recommendations, and end-to-end proxy voting solutions. Institutional clients have long turned to ISS to apply their corporate governance views, identify environmental, social and governance risk, and manage their complete proxy voting needs on a global basis. ISS has an established benchmark corporate governance and voting policy framework for Canadian issuers, as we have with all other markets, which is publicly available on our website. This forms the basis of our research and voting recommendations on all issuer meeting resolutions, including on environmental and social issue proposals, that are provided to institutional shareholders who subscribe to our proxy advisory services. Covering more than 47,000 issuer meetings annually, we have over 2,000 clients globally who rely on ISS' expertise to help them make more informed investment and voting decisions on environmental, social and governance matters. Like the ISS ESG team, in producing governance research and voting recommendations we extensively use public company reporting as a primary source of information.

ISS has been a long-standing participant in the corporate governance and responsible investment community in Canada and has over the years worked closely with various stakeholders, including regulators and institutional investors in Canada and throughout the globe.

ISS' comments on the Proposed Instrument represent our views in our capacity as a thought leader in the areas of corporate governance and responsible investment, and not necessarily those of our clients.

General Comments

Given the increasing importance of integrating environmental, social and corporate governance ("ESG") factors into a prudent investment management strategy, ISS applauds the CSA for prioritizing updating and strengthening the disclosure requirements for reporting issuers related to climate-related matters and more specifically material climate risk disclosure. We also support the CSA's stated goal of facilitating consistency and comparability among issuers and promoting disclosures that yield decision-useful information for investors and the market.

As investors globally continue to prioritize climate risk management and green investment opportunities, clear and consistent disclosure according to a common and widely accepted set of guidelines is necessary. The Financial Stability Board's Task Force on Climate-related Financial Disclosures (TCFD) framework has become widely accepted as a model for companies to meet E&S disclosure expectations of Canadian institutional investors, particularly when used in conjunction with sector-specific metrics such as those under the Sustainability Accounting Standards Board (SASB) standards.[1] For its part, the Expert Panel on Sustainable Finance, appointed by Canada's Minister of Environment and Climate Change and Minister of Finance, has recommended to "[d]efine and pursue a Canadian approach to implementing the [TCFD] recommendations."[2] The Expert Panel further recognized that the TCFD's recommendations are becoming "the global benchmark not only for climate-related reporting, but also for the measurement and governance of climate issues....Leading reporting frameworks and standards organizations are working to align their guidance to the TCFD framework, to minimize the reporting burden on issuers."[3] Indeed, the G7 nations have agreed to align mandatory climate-related financial reporting with the TCFD framework, while recognizing the value of a global baseline standard being developed by the International Financial Reporting Standards Foundation (IFRS).

For the reasons articulated by the Expert Panel, ISS supports the CSA approach in the Proposed Instrument to largely align disclosure requirements with the TCFD framework. Our position is consistent with our prior support of the recommendations by the Ontario Capital Markets Modernization Taskforce (the Taskforce) for mandatory disclosure of material ESG information that aligns with the TCFD recommendations. As our clients are global investors, we welcome regulatory initiatives that seek to improve company ESG reporting and to harmonize and standardize reporting on an international level. To that end, we provide further comments below regarding completeness and comparability of quantitative and qualitative disclosure related to climate and other ESG risks.

ISS Global Policy Survey

As part of ISS' transparent and inclusive policy update process, our 2021 Global Climate Policy Survey[4] obtained responses from investors (asset owners, managers, advisors) and non-investors (public companies, board members, advisors to public companies, and others) to specific questions related to

[1] Letter from Marcia Moffat, Chair, Canadian Coalition for Good Governance to the Capital Markets Modernization Taskforce (Sep. 7, 2020), http://ccgg.ca/wp-content/uploads/2020/09/CCGG-Submission-Consultation-Modernizing-Ontarios-Capital-Markets_.pdf

[2] Expert Panel on Sustainable Finance. Final Report of the Expert Panel on Sustainable Finance: Mobilizing Finance for Sustainable Growth (2019), available at: https://publications.gc.ca/collections/collection_2019/eccc/En4-350-2-2019-eng.pdf

[3] *Id* at 15.

[4] ISS Governance. 2021 Global Policy Survey – Climate: Summary of Results (2021), available at https://www.issgovernance.com/file/publications/2021-climate-survey-summary-of-results.pdf

climate-related disclosure. Investors and non-investors generally indicated the following minimum expectations for companies whose operations, products, or services are considered to strongly contribute to climate change:

Of those who responded:

- 88 percent of investors and 70 percent of non-investors considered "…clear and appropriately detailed disclosure of [a company's] climate change emissions governance, strategy, risk mitigation efforts, and metrics and targets, for example such as according to the Task Force on Climate-Related Financial Disclosures (TCFD) framework" to be a minimum expectation.
- 73 percent of investors and 41 percent of non-investors expected a high-emitter company to declare a long-term ambition to be in line with Paris Agreement goals for its operations and supply chain emissions (Scopes 1, 2 & 3 targets) that could reasonably be seen to be in line with limiting global warming to "well below 2 degrees C" (Paris Agreement goals).
- 66 percent of investors and 60 percent of non-investors expected that a company "[has] demonstrated it is improving its disclosure and performance (even if it is not yet in line with peers or with Paris Agreement goals)."
- 63 percent of investors and 20 percent of non-investors expected high-emitter companies to disclose a strategy and capital expenditure program in line with GHG reductions targets that could reasonably be seen to be in line with limiting global warming to "well below 2 degrees C" (Paris Agreement goals)."

Investors are increasingly being asked to vote on issuer climate transition plans as a result of shareholder and management proposals and are developing policy objectives and criteria in order to do so. The ability to apply their respective voting policies and effectively evaluate company progress toward climate strategy and goal achievement relies on the availability of complete information related to the TCFD's four pillars. This information is also often used by investors to determine the effectiveness of board oversight and may impact votes on directors as well.

CSA Consultation Questions

Disclosure of GHG Emissions and Scenario Analysis

Question 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?

ISS believes that the work and approach to assessing climate risk from a financial materiality/risk standpoint will continue to evolve over time. Disclosure requirements should allow for the evolution in what investors consider to be material and what investors will require in the future to properly integrate this information into their investment processes. Disclosure of scenario analysis outcomes would only be as useful as the reasonableness of the assumptions used to produce them. While consistency of approach is needed, as long as the assumptions used for this purpose are also disclosed, users of this information can evaluate its relevancy for their own purposes. Therefore, we believe any future CSA guidance on scenario analysis should encourage disclosure of specific scenarios and underlying assumptions and methodology.

Today, some companies already voluntarily provide reports on their transition plans, including scenario analysis. Such analysis, guided by a framework like the TCFD, allows investors to understand the value at risk under different scenarios and to evaluate a company's strategy towards specified goals. We recognize, however, that some companies are just beginning their sustainability disclosure programs, and therefore appreciate the value of a phased-in approach.

In the event that the Proposed Instrument does not mandate this disclosure, it would be useful for investors to know why an issuer has not conducted scenario analysis and explain specific rationale in their disclosure documents under a "comply-or-explain" disclosure requirement. This additional information may provide further insight and context into board and management oversight of climate related risk.

Question 5: The Proposed Instrument contemplates issuers having the option to disclose GHG emissions or explain why they have not done so. Is this 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?

As stated above, the responses to the ISS Global Climate Policy Survey show that many investors are increasingly expecting climate disclosures that may include Scope 1, 2 and 3 emissions reduction targets (at least for high-emitter companies). These may only be useful when actual emissions are disclosed in all three categories, where relevant, in order to assess a company's progress and the efficacy of established goals. In this case, a comply-or-explain mechanism providing optionality across all GHG emissions does not support the needs and expectations of investors, does not facilitate consistency and comparability across issuers and may lead to boilerplate statements rather than any meaningful disclosure. At minimum, our view is that the CSA should consider adopting the TCFD approach of requiring Scopes 1 and 2 disclosure and, where appropriate, Scope 3 emissions and related risks. Alternatively, the CSA could also consider a phase-in period for Scope 3 reporting, starting with material Scope 3 emissions. Additionally, qualitative context should accompany such quantitative disclosures to provide complete information related to changes over time.

Question 6: 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?

The GHG Protocol is the most widely used and well-accepted international standard for calculating GHG emissions. TCFD states that GHG emissions be made in line with the GHG Protocol, and the recently published Climate-related Disclosure Prototype, developed by the IFRS Technical Readiness Working Group (TRWG) for consideration by the newly formed International Sustainability Standards Board, also requires GHG emissions disclosure to be made in accordance with the GHG Protocol. Therefore to the extent the CSA seeks disclosure comparability across companies and jurisdictions, alignment with the GHG Protocol would serve investor and market needs well.

Question 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?

To increase the credibility and acceptance of climate-related data, it would be beneficial to subject it to some form of external assurance. An assurance framework for climate-related disclosure would also help place it at par with the information contained in a company's financial statements. Third-party assurance of climate-related data could be part of general auditing.

Question 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?

Consistent with disclosure of other material risk information, GHG emissions-related disclosure, including targets, should be included in the (continuous disclosure) CD documents covered by the Proposed Instrument. If the required disclosure is included by clear and complete reference to another document, the referenced document should be made publicly available concurrent with or no later than the CD documents specified in the Proposed Instrument.

Usefulness and Benefits of disclosures contemplated by the Proposed Instrument

Question 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?

Many investors are increasingly taking climate risks into consideration, engaging with issuers on climate-related risk and issuers' climate transition plans, and are voting on shareholder proposals and management proposals, including advisory votes on an issuer's climate strategy and transition plan also known as "say on climate." In addition, some institutional investors have indicated that holding directors accountable for lack of progress in this regard is appropriate. To properly assess a company's progress for purposes of investment decisions, engagement activities or voting decisions, investors require robust and consistent disclosure of company strategy and governance structure. TCFD-aligned disclosures, supplemented by company-specific reporting metrics, provide an appropriate starting point.

Desirable disclosure may include not only Net Zero and Science Based Targets, but also CapEx regarding climate transition as well as information on investment in carbon removal technologies to contribute to Net Zero.

Question 10: What are the anticipated benefits associated with providing the disclosures contemplated by the Proposed Instrument? How would the Proposed Instrument enhance the current level of climate-related disclosures provided by reporting issuers in Canada?

The anticipated benefits of providing the disclosures contemplated by the Proposed Instrument are well articulated in Annex G to the request for comment and all are important considerations. In addition, the benefits would include facilitating support of and progress towards the recommendations of the Expert Panel on Sustainable Finance to "Define and pursue a Canadian approach to implementing the recommendations of the Task Force on Climate-Related Financial Disclosures (TCFD)."

Phased-in Implementation

Question 17 pertaining to allowing sufficient time for reporting issuers to implement the required disclosure under the proposed phase-in timelines and alleviating concerns related to the challenges and costs associated with providing the required disclosures, would more appropriately be answered by reporting issuers. ISS would, however, like to point out that many institutional investors are keen to have the proposed, required disclosure as soon as possible and for those companies identified as high emitters, immediately. The timing of the phased-in approach should not be viewed as a reason for issuers, and in particular high emitters, widely held by pension funds and other institutional investors, to postpone providing disclosure compliant with TCFD recommendations until the Proposed Instrument comes into force. Further, to the degree that mandatory disclosure aligns with TCFD and with global standards for sustainability reporting, this should reduce both the cost and reporting burden for public companies, especially those operating globally and already reporting based on the underlying disclosure standards and framework.

Consider also this illustrative example: in 2021, a shareholder proposal asking Canadian Pacific Railway to provide an annual non-binding advisory vote on the company's climate strategy and transition plan which was supported by management, and a management proposal at Canadian National Railway asking shareholders to approve the company's climate transition strategy and plan, required analysis and an informed vote on each of these matters by shareholders. Proponents of these and similar resolutions filed at other widely held companies globally have indicated that they will file a larger number of these proposals in 2022 and going forward. It is therefore important that shareholders have the necessary information to fulfill their due diligence when voting their proxies and otherwise overseeing their investments.

Question 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?

In our view, E, S, and G risks are fundamentally interconnected. Investor understanding of public companies through the ESG lens is, however, often limited by the availability of complete, consistent, and comparable issuer disclosure. To that end, ISS encourages the CSA to develop a broader ESG disclosure framework that considers and develops in parallel with the evolving investor integration of material ESG factors as part of their investment, stewardship and proxy voting decision-making processes.

We recommend that the broader framework provide for disclosure of both quantitative metrics (e.g. resource consumption, emissions, accident rates, diversity ratios), as well as qualitative data (e.g. human rights policies and due diligence, environmental management systems, climate change strategies, biodiversity management). The framework should address both backward-looking information (historical data to assess trends) as well as forward-looking data (targets and objectives, action plans, strategies). As the CSA has noted, the framework should be informed by global regulatory developments to standardize sustainability disclosure.

With regard to environmental risks, such topics may include biodiversity, natural capital, water scarcity, as well as the issues mentioned in our response to Question 9. Social issues around which many investors have coalesced stem from the ongoing COVID-19 pandemic and movements such as Black Lives Matter, #MeToo, and attention to indigenous rights and the issue of modern slavery, to name a few.

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Thank you again for the opportunity to provide our comments on this important proposal. Please contact the undersigned with respect to any questions or if you would like any further information regarding any of the matters discussed herein.

Respectfully,

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