January 17, 2022

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Re: Request for Comment on Draft Regulation 51-107 Respecting Disclosure of Climate-related Matters

Dear Sirs and Mesdames:

BNP Paribas Asset Management (BNPP AM) appreciates the opportunity to comment on the Canadian Securities Administrators' (CSA) Draft Regulation requiring Canadian issuers to disclose certain climate-related information.

BNP Paribas, our corporate parent, has long supported efforts to address climate change and to finance the transition to a more sustainable economy, and is a globally recognized leader in this area. BNPP AM currently manages EUR 502 billion in assets[1], and has become widely recognized as a leader among global investors on sustainability. Recently, BNPP AM re-branded itself as "the sustainable investor for a changing world" to express its core commitment to incorporating sustainability considerations into all of its activities and to driving more sustainable outcomes for its clients and society. In 2019, BNPP AM published a Global Sustainability Strategy,[2] committing itself to incorporating environmental, social and governance (ESG) considerations into all investments, globally, and to aligning its portfolios with the goals of the Paris Agreement by 2025. BNPP AM identified the transition to a low carbon economy as a pre-condition for a future sustainable economic system, alongside environmental sustainability and equality and inclusive growth, and committed itself to help drive that transformation through effective stewardship. For example, BNPP AM has joined the Net Zero Asset Managers Initiative, a group of 220 asset managers managing $57 trillion committed to "supporting the goal of net zero greenhouse gas

[1] As of 30 September 2021.
[2] https://docfinder.bnpparibas-am.com/api/files/2818EAAE-D3CF-4482-A3BA-A2EA898AFD0D

emissions by 2050 or sooner, in line with global efforts to limit warming to 1.5 degrees Celsius; and to supporting investing aligned with net zero emissions by 2050 or sooner."[3] We are an active member of the Climate Action 100+ global investor engagement on climate change, now representing $54 trillion in AUM[4], sponsor shareholder proposals on climate change, and vote our proxies with climate considerations in mind, across all equity portfolios, globally. In 2021, for example, BNPP AM supported 90% of shareholder proposals relating to climate change, within its voting scope, and opposed 972 management proposals relating to board elections, discharge proposals or approval of accounts, due to environmental or social considerations, including lack of disclosure of GHG emissions. BNPP AM recently built on these efforts with the publication of its roadmap to address biodiversity loss.[5]

BNPP AM welcomes the CSA's consideration of mandatory corporate climate change disclosures and agrees that current disclosure requirements in Canada are generally insufficient to meet investor needs for comparable, consistent and accurate information on the full range of risks climate change presents to our global portfolios.

Our key recommendations are as follows:

- The CSA should consider a broad and holistic approach for what climate disclosures should be deemed "material" (and therefore need to be disclosed in CSA filings), while also adopting a framework for mandatory disclosure of scope 1, 2, and 3 greenhouse gas (GHG) emissions using GHG protocol methodology as recommended by the Task Force on Climate-Related Financial Disclosures (TCFD). We recommend a phase-in of Scope 3 disclosures for financial institutions and the improvement of the existing Scope 3 methodologies. We also recommend that CSA adopt the future International Sustainability Standards Board (ISSB) standards.
- Mandatory disclosure of TCFD scenario analysis for all reporting issuers.
- Phase in external verification of corporate reporting on GHG emissions in line with a recognised assurance standard.
- Phase in required disclosure of a corporate transition plan, which demonstrates the degree to which the entity is working to limit global warming to 1.5°C in alignment with carbon neutrality goals of the Paris Agreement.
- International coordination and harmonization of disclosure regimes and definitions is critical, and the CSA should actively engage in, and build upon, the ongoing work by the TCFD, the International Financial Reporting Standards (IFRS) Foundation and its standard setter, the International Sustainability Standards Board (ISSB), the International Organization of Securities Commissions (IOSCO), the International Platform for Sustainable Finance (IPSF), as well as the G20 Sustainable Finance Working Group (G20 SFWG) – and international efforts by the U.S. Securities and Exchange Commission (SEC) and other regulators.

[3] Net Zero Asset Managers Initiative - Home
[4] Climate Action 100+
[5] https://docfinder.bnpparibas-am.com/api/files/940B42EF-AFFF-4C89-8C32-D9BFBA72BF24

I. Recommendations for developing a robust Canadian climate disclosure framework

As an active participant in the Canadian financial system, and as a company that recognizes the important role financial regulation can play in supporting the transition to a green economy, BNP Paribas Asset Management provides the following recommendations as the CSA considers how best to structure its own climate disclosure framework. Although many of these recommendations would apply to a wide range of ESG areas, and we support broader mandatory sustainability disclosure, we have focused this letter on climate.

Mandatory and globally consistent Canadian climate disclosures would provide investors with important material and other critical information about how companies contribute and respond to climate change, helping address investors' needs today, creating more efficient markets, and facilitating capital formation for funds and businesses – including those with ESG objectives.

The CSA should make climate disclosure mandatory for all reporting companies, in line with the evolution expected at the global level under the umbrella of the G7/G20 and COP 26. While many companies already voluntarily disclose ESG information, such as climate-related risks and opportunities according to the TCFD framework, the information disclosed is not always complete, comparable, or reliable. The absence of standardized disclosures makes it difficult to understand ESG objectives set by issuers and carries the risk of "greenwashing."

The financial services industry is a global industry and has an integral role to play in achieving broad sustainable development goals. Mandatory climate disclosures consistent with internationally harmonized standards will provide transparency to investors who are increasingly keen to understand and monitor the sustainability impact of their investments. In addition, such disclosures will help corporates to accelerate their climate transition efforts and support the development of an efficient market for sustainable and other ESG products, thereby providing funding to both green and transitional activities.

In crafting its disclosure regime, the CSA should also coordinate its efforts domestically and internationally with other regulators and authorities, including the European authorities, to avoid inconsistencies between private and public companies' disclosures on climate, and to avoid duplication.

Clarifying a broad and holistic understanding of materiality

The CSA should continue to define materiality beyond what is deemed to be "financially" material from an accounting standpoint, given that materiality should always be grounded in what is important to investors. This may include factors that are important and useful to investor decision-making, including proxy voting and corporate engagement, compliance with international norms (e.g., UN Guiding Principles on Business and Human Rights, OECD Guidelines for Multinational Enterprises), national regulations, and client mandates – which may include decisions not to finance activities that may be profitable in the short-term, but in the long-term may produce severe harm to the company itself, society, or the environment. A narrow focus on "financial materiality" prevents investors from receiving the information they need to manage external harms (i.e., "negative externalities" or harm created by companies to third parties), including those that contribute to systemic risks (i.e. threats to financial

stability, to the stability of communities, governments, and to key life-support systems such as the climate and biosphere).

For example, it is material whether a company has adopted a commitment to reach "net zero by 2050," despite the long horizon. Investors need to monitor and evaluate performance against that commitment in the short, medium, and long-term. Climate change, biodiversity loss, and other environmental harms accumulate over time, translating into systemic instability over a timeframe that is disconnected from market cycles, and therefore deserves ongoing monitoring. Furthermore, risks that are not considered material to an issuer from a financial perspective in the short run may actually have financial consequences in the long run since the negative environmental and social impact of an issuer's activities may accelerate environmental degradation and trigger the loss of its license to operate due to significant pushback from various stakeholders, including the communities in which it operates, as well as broader economic consequences.

Moreover, disclosures that address concerns raised by other stakeholders are often relevant to investors since those concerns may ultimately represent a risk to issuers that fail to address them. Voting results on shareholder proposals can be instructive here, as they include very strong and consistent support for policies, procedures, and reporting on a wide range of sustainability issues, such as details of how the company will achieve net-zero emissions across its operations, reduce its scope 3 emissions, or set emissions reductions targets, as well as details of how lobbying activity aligns with the goals of the Paris Agreement.

Finally, European investors rely on Canadian securities filings to help comply with European Union (EU) and other home country regulations (as well as obligations under the UN Guiding Principles on Business and Human Rights), to evaluate and address adverse impacts to society and the environment – which makes an approach that's broader than "financial materiality to the issuer" all the more important.

The remainder of our letter responds to some of the key questions presented in the Consultation.[6]

Disclosure of GHG Emissions and Scenario Analysis

4. Under the Draft Regulation, scenario analysis would not be required. Is this approach appropriate? Should the Draft Regulation require this disclosure? Should issuers have the option to not provide this disclosure and explain why they have not done so?

BNPP AM supports mandatory TCFD disclosure, including scenario analysis, which is critical to helping investors understand corporate preparedness for various potential future outcomes, as well as preparing corporations to adopt the necessary measures to adapt or, more importantly, to dedicate corporate resources to climate mitigation to help prevent future scenarios that the company will be unable to effectively manage. The CSA is correct to note investor concerns regarding the "usefulness, consistency and comparability of scenario analysis without a standardized set of assumptions." The CSA could play a critical role here by establishing standardized assumptions or issuing minimum

[6] Climate-related Disclosure Update and CSA Notice of Consultation Draft Regulation 51-107 respecting Disclosure of Climate-related MattersClimate-related Disclosure Update and CSA Notice of Consultation Draft Regulation 51-107 respecting Disclosure of Climate-related Matters (lautorite.qc.ca)

requirements for scenario analysis, such as a requirement that a 1.5 degree scenario be produced. As noted below, we would encourage the CSA to work with other regulators and standard-setters to ensure global consistency. Regarding financial institutions more specifically, we recommend exploring and understanding climate medium and long term impacts on financial institutions by relying on NGFS scenarios (cf. 2022 ECB climate related stress tests) without capital impact.

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

- ***The Draft Regulation 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?***

The CSA should consider a broad and holistic approach for what climate disclosures should be deemed "material" (and therefore need to be disclosed), while also adopting a framework for mandatory disclosure of scope 1, 2, and 3 GHG emissions that could be provided in a disclosure form outside of the filings and should include a safe harbor. We do not recommend that CSA take a "comply or explain" approach to climate disclosure, which will only delay the availability of comparable information for investors and the ability of financial institutions to produce their own Scope 3 disclosures, which are based on disclosures produced by their clients and portfolio holdings.

The CSA should set a level of ambition sufficiently high to accelerate the alignment of the Canadian economy and financial sector with the climate commitments taken by the Canadian government. Since climate change can be viewed as a market failure, securities regulation can help facilitate the ability of market participants to responsibly allocate capital for the long-term and mitigate risk. To address this, the CSA should adopt a broad and holistic approach to the definition of materiality, and to supplement current requirements for disclosing material information with new line item disclosures that provide reliable, comparable, and meaningful information about each company's exposure and contribution to climate change. Sustainability issues, including climate change, tend to vary by industry, so industry specific guidance will also be needed. But there are baseline requirements that should be mandated for all reporting companies.

The CSA should continue to require all material disclosures to be published in annual filings. In addition, and as discussed below, other required disclosures to facilitate comparisons between issuers should also be provided.

The need for line item disclosures for scopes 1, 2, and 3

While principles-based material disclosures are important, climate disclosures cannot be limited to qualitative aspects given how modern-day global investors use information. Key performance indicators (KPIs) for GHG emissions – that are measurable and quantitative – are critical not only to informing

investor decisions, but also helping market participants and regulators monitor corporate progress towards alignment with the Paris Agreement. While climate transition pathways can be specific to each sector and country, the CSA's disclosure framework should include a small number of core KPIs common across sectors and jurisdictions. Indeed, investors will need to be able to aggregate those common KPIs to evaluate portfolio risk and to monitor and disclose their own performance to achieve certain investor and business objectives.

Beyond requiring the disclosure of material information, the CSA should also adopt a framework that includes mandatory disclosure of detailed, relevant – but perhaps non-material information – related to scope 1, 2, and 3 GHG emissions. These numbers should be disclosed on a gross basis each year using a globally consistent methodology. Timely and mandatory climate disclosure should be required across all sectors and companies, but should apply proportionality to limit burdens on small and medium size enterprises.

Carbon offsets should be disclosed on a standalone basis, accompanied by sufficient disclosures to permit investors to evaluate their effectiveness and credibility, (N.B., carbon offsets should only be used as a last resort option for residual emissions in order to satisfy broader obligations, given the practical challenge of removing GHG emissions from the atmosphere).

The detail of this line item reporting should largely follow the standards adopted by the TCFD, and be consistent with the ongoing work from the IFRS Foundation's SSB. These line item standards could require a 1.5 degree scenario to align with the goals of the Paris Agreement.

We also recommend that the CSA require companies to publish a net-zero transition plan to allow investors to gauge whether companies are taking credible measures to reach net-zero in alignment with a 1.5 degree global ceiling for average temperature rise. Although this is a critical need for investors – and companies – we do recognize that it may be reasonable to allow for a phase-in period as reporting standards evolve. The CSA should reference the recent TCFD guidance metrics, targets and transition plans for reporting issuers[7], and indicate a timeline by which such disclosures should be made.

Phase-in Scope 3 Disclosures for Financial Institutions

In terms of the timing and detail for these requirements, while disclosures of scope 1 and 2 GHG emissions should be in the CSA's initial phase for implementation, scope 3 emissions should go into effect at a later stage for financial institutions, which are dependent on the disclosure of their corporate clients and portfolio holdings. Scope 3 disclosures are important for investors to understand the broader impact of corporate activities on climate change, and the long-term financial viability of companies as a result of changing climate – and therefore should be a critical part of the CSA's disclosure framework.
It is essential that standard setters improve or develop proper methodologies, for instance, for the consolidation by financial institutions of the amount of indirect emissions (other than from consumption of purchased electricity, heat, or steam) that stem from customers in their lending portfolios (Scope 3). As a member of the Net Zero Banking Alliance, BNP Paribas needs to build a very robust vision of its Scope 3 emissions. We welcome that TCFD echoes our concerns regarding several challenges associated

[7] https://assets.bbhub.io/company/sites/60/2021/07/2021-Metrics_Targets_Guidance-1.pdf

with disclosure of Scope 3 GHG emissions, including data availability, calculation methodologies, scoping, organizational barriers and the issue of double counting emissions.[8]

7. The Draft Regulation does not require the GHG emissions to be audited. Should there be a requirement for some form of assurance on GHG emissions reporting?

The CSA should ensure that climate-related disclosures are produced with the same degree of quality and governance as financial data. In particular, the CSA should consider adopting measures to promote data quality, such as potentially requiring an independent auditor to attest to and report on these assessments and certifications (once there are established methodologies and metrics for all three scopes), and the CSA should allow the flexibility for issuers to use proxies, at least initially, to the extent they are sourced from authorized data providers. An integrated audit process could provide an important check on the accuracy of climate disclosures.

Guidance on disclosure requirements

14. We have provided guidance in the Draft Policy Statement on the disclosure required by the Draft Regulation. Are there any other tools, guidance or data sources that would be helpful in preparing these disclosures that the Draft Policy Statement should refer to?

It is of upmost importance to develop a set of common metrics, including cross-industry metrics that are common to both corporates and financial actors (interoperability is a first step but remains insufficient to achieve “same goals, same metrics”).

International coordination and harmonization of disclosure regimes and definitions is critical, and the CSA should actively engage in, and build upon, the ongoing work by the TCFD, the IFRS Foundation, IOSCO, the IPSF, as well as the G20 SFWG.

As noted above, in creating a new ESG disclosure regime, the CSA should strive to achieve consistency with international definitions and disclosure efforts. A great deal of existing work has already been done in Europe and other jurisdictions that have established broad based climate disclosure frameworks. The CSA now has an opportunity to build on this work, and can help encourage greater global harmonization of international disclosure frameworks to minimize conflicting requirements and market fragmentation.

Today, multiple initiatives are underway across international organizations such as the United Nations and the OECD, and international standard-setters such as the Basel Committee on Banking Supervision (BCBS), IOSCO, and the IFRS Foundation. In addition, informal networks have been formed to advance collective awareness, such as the NGFS and the IPSF.

[8] While the TCFD framework offers valuable guidelines to disclose scope 1, 2, and 3 emissions for corporates, it does not offer a methodology for scope 3 emissions for banking institutions. Offering adequate liability protection while standards are still being developed would both encourage firms to disclose a greater amount of valuable data on which banks depend to assess their portfolio’s exposure to climate risks, and provide valuable information to investors who rely on such data for their investment decisions – all while limiting unnecessary litigation risks associated with such disclosures. Some form of climate-specific safe harbor provision may therefore be necessary, at least initially, due to the difficulty in measuring climate risk, reliance on third-party data, and the level of uncertainty associated with climate change as it relates to disclosures made in CSA filing documents.

At the same time, a range of voluntary standards have proliferated to meet this need, the biggest of which include the TCFD created by the Financial Stability Board (FSB), the Sustainability Accounting Standards Board (SASB), the Carbon Disclosure Standards Board (CDSB), and the Global Reporting Initiative (GRI). Importantly, these standards are now incorporating more forward-looking risk management and governance.

BNP Paribas AM welcomes the efforts by the G20 SFWG to introduce global consistency among the proliferation of international initiatives. Differing initiatives can only result in inconsistencies in approaches and timing, misallocation of scarce expert resources, and confusion for stakeholders. For corporates and financial institutions, differing initiatives would also generate implementation burdens that would slow down – rather than accelerate – the necessary transformation of business practices.

The G20 SFWG has tasked the IOSCO to lead the global effort on ESG disclosures. In turn, IOSCO has endorsed the idea of relying on technical standards to be produced by the IFRS Foundation through its International Sustainability Standards Board (ISSB). Therefore we encourage the CSA to actively engage in the ongoing work of the IFRS Foundation, as well as the work of the alliance of private organizations building a comprehensive corporate reporting architecture (i.e., the Carbon Disclosure Project (CDP Global), CDSB, the International Integrated Reporting Council (IIRC), the GRI, and SASB).

With respect to the IFRS Foundation, we expect their work to leverage the TCFD framework established by the FSB. The TCFD standards have been widely adopted by corporate issuers by a growing number of jurisdictions such as New Zealand, the United Kingdom, and Hong Kong – all of which are mandating climate disclosures by large issuers that are aligned with the TCFD framework. In Europe, the current Non-Financial Reporting Directive (NFRD) and the 2019 European Commission non-binding Guidelines on non-financial climate reporting both endorse the TCFD recommendations. The April 2021 European Commission proposal for a Corporate Sustainability Reporting Directive (CSRD), which updates the NFRD, goes a step further and will make the TCFD recommendations and metrics mandatory for all corporates with more than 250 employees, all listed SMEs, and all financial undertakings.

The TCFD framework provides valuable reporting guidelines and key metrics, including scope 1, 2 and 3 emissions where material, which cut across all sectors of the economy. Together with the IFRS standards, which would be tailored to the specificities of each sector, this dual framework would provide comparability, consistency, and enough flexibility to integrate sectoral, regional and national specificities.

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Thank you again for the opportunity to comment. If BNP Paribas Asset Management can provide the CSA with any further information, please contact me at [redacted] or by phone at [redacted].

Sincerely,

"Adam Kanzer"

Adam Kanzer
Head of Stewardship – Americas
BNP Paribas Asset Management

cc: Sonja Volpe, Chief Executive Officer, BNP Paribas, Canada
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