17, January, 2022

Canada Securities Administrators

CSA Notice and Request for Comment Proposed National Instrument 51-107 Disclosure of Climate-related Matters

To whom it may concern,

In response to the public consultation, I am reaching in my capacity of Chief External Affairs Officer of the Global Reporting Initiative (GRI) to share some views and concerns about the approach expressed in the consultation.

GRI would firstly like to commend you on this initiative to strengthen climate reporting, and for the opportunity to provide feedback through this engagement.

- **Quality reporting comes from understanding reporting framework**

We believe it is important that reporting organizations have a clear understanding of the available reporting frameworks, as each have different reporting needs depending on various factors such as sector, stakeholders, impact, and sustainability context. It is important to ensure that companies are not faced with an increased reporting burden, something which could be perpetuated by mandating specific standards or protocols for certain topics (e.g. GHG). As mentioned in our full response to the consultation, GRI was being recommended as an available framework prior to the creation of the TCFD, and it is important that organizations are afforded the full range of standards and frameworks. This will also ensure that a wide range of stakeholder needs are met, beyond those of just investors.

- **Preparing companies in Canada for upcoming reporting obligations**

Our second concern is regarding the potential impact on listed companies in Singapore of their obligations under European Sustainability Reporting Standards, currently being drafted by EFRAG. Companies operating in the EU will be demanding disclosures from any listed companies in Singapore that are part of the value chain. Given that these disclosures will be matching those required under the Corporate Sustainability Reporting Directive (CSRD), it is crucial that companies are sufficiently prepared, otherwise they will risk exclusion from the value chain. Alongside the upcoming reporting requirements in the EU Sustainability Reporting Standards, further obligations on companies will come from the EU Sustainable Corporate Governance Directive(Environmental and Human Rights Due Diligence), country by country reporting under Pillar 2 of the OECD, and of course the upcoming Bill S16 in Canada on Supply Chain Due Diligence.

In addition, the ISSB Standards will also entail obligations on reporting organizations after some years. Furthermore, given that GRI and EFRAG will be co-constructing Standards, the information that will be required from companies that are part of the value chain under EU reporting, will be largely aligned with the GRI Standards.

With the rapidly developing legislative reporting landscape, it is therefore crucial that companies are able to adequately prepare. This cannot be done so without having an understanding of the current standards and frameworks, as these are being used as the foundations for the Standards of the EU and the ISSB. Furthermore, these EU Standards will also place big emphasis on double materiality, which speaks to the fact that risks and opportunities can be material from both a financial and non-financial perspective.

- **Double Materiality**

We believe Double Materiality to be at the heart of Sustainability reporting because Double materiality speaks to the fact that risks and opportunities can be material from both a financial and non-financial perspective. The concept requires to manage sustainability issues that impact the ability of organizations to generate returns, while equally acknowledging the impact that they have on the environment and society. In other words, issues or information that are material to environmental and social objectives can have financial consequences over time.

At GRI, our position is that the scope of sustainability reporting must include the full range of a company's external impacts on the world, which go beyond financially material factors. In this context, each direction of the notion of double materiality needs to be considered in its own right. Impacts on society and the environment cannot be deprioritized on the basis that they are not financially material or vice versa. A company should start with the assessment of the larger ESG landscape followed by the identification of the subset of information which is financially material to the company and of interest to the investor stakeholder groups.

Concluding Remarks

We would like to thank you for enabling stakeholder engagement through this process, and we invite you to continue this work.

GRI looks forward to seeing the development of this initiative, and we remain available for further engagement, and to provide any input or expertise regarding the next iteration of this initiative. We look forward to further discussing our feedback, and our recommendations proposed in this submission.

Sincerely,

Peter Paul van de Wijs

Chief External Affairs Officer

GRI

GRI response

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?** NA.

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?** NA
3. **For reporting issuers, do you currently conduct climate scenario analysis (regardless of whether the analysis is disclosed)? If so, what are the benefits and challenges with preparing and/or disclosing the analysis?** NA

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?**

GRI supports the notion of scenario analysis when reporting, and this is a concept also included in the Sector Standard, GRI 11: Oil and Gas 2021. It is recommended in order to gauge the potential outcomes of an organization's strategies in uncertain circumstances or conditions. Various methodologies can be employed, both qualitative and quantitative. Scenario analysis is particularly well suited to explore those risks associated with a certain sector, for example. Such as, exploring the risks that that transitioning to a low-carbon economy poses to oil and gas organizations. Furthermore, as the TCFD recommendations also suggest scenario analysis as a way to help organizations understand climate change-related risks and opportunities, aligning with these recommendations and Standards would bring further convergence to the reporting framework. However, GRI believes that at if scenario analysis is not required, report or explain should be included as a minimum principle.

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

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

The draft climate prototype issued by the European Financial Reporting Advisory Group (EFRAG), which is based on the GRI Standards[1] asks for Disclosures on Scope 1, 2 and 3 GHG emissions. It must also be noted that Cluster 2 of the draft prototype considers reporting on the impacts on climate change as well as climate-related risks and opportunities, covering own operations and the **whole value chain**, material for all undertakings. Therefore, those Canadian

[1] https://www.ifrs.org/content/dam/ifrs/groups/trwg/trwg-climate-related-disclosures-prototype.pdf

companies who are part of the value chain of the companies subject to these EU reporting requirements, will be requested to produce climate disclosures in line with above, regardless of the Canadian law. This might further extend to Canadian companies who own large facilities in Europe or own a listed company in the EU.

Furthermore, disclosures on GHG emissions will also be required by the Standards of the International Financial Reporting Standards Foundation (IFRS), which are being drafted by the International Sustainability Standards Board (ISSB), according to the draft prototype which was released in November 2021.

Under the GRI Standards it is possible to use reasons for omissions for disclosures which are subject to confidentiality concerns, legal prohibitions, which do not apply to the organization, or where information is incomplete or unavailable. See Requirement 6 in GRI 1. Foundation 2021.

For the select governance disclosures in GRI 2. General Disclosures 2021 that cannot be omitted, an organization is not expected to have in place all the governance structures, roles, actions or policies referred to in the disclosures, but to report on them. If such items do not exist, an organization can comply with this disclosure by reporting that it does not have policies on responsible business conduct. This provides an understanding of how the organization's strategy and operations integrate the management of its impacts on the economy, environment, and people, including impacts on their human rights

- **5) b) 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?**

  Please see below response for 5,c:

- **5) c) Should disclosure of Scope 2 GHG emissions and Scope 3 GHG emissions be mandatory?**

GRI strongly supports mandatory disclosure requirements for reporting Scope 2 GHG emissions and Scope 3 GHG emissions.

- **5) d) 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?**

GRI proposes that the legislation should consider accepting already existing reporting requirements of GHG emissions as adequate under this law. Please see our response to question 8 on ensuring that reported information is not duplicated.

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.

- **6) a) 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?**

We believe that companies are best positioned to produce quality and comparable reporting when there is clear guidance for them on which existing frameworks and standards can be used to complement each other. We would not recommend mandating one specific standard (such as the GHG Protocol), as this may not necessarily meet all user needs. If other existing Standards are aligned with the content of the GHG Protocol, then reporting organizations should not be prevented from using these as well or instead. There is certainly evidence demonstrating that this is already common practice amongst companies, In 2016, 92% of Fortune 500 companies responding to the CDP used GHG Protocol directly or indirectly through a program based on GHG Protocol.

- **6) b) 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?**

As stated above, we believe that if there are existing Standards that are aligned with the GHG protocol measurement methodology, then reporting organizations should have the option to report using these other Standards. One standalone framework may not necessarily meet all the reporting needs of an organization and their stakeholders, so organizations should have the option to select the standard, or standards most suited to these needs. Furthermore, the GHG Protocol acts as a measurement methodology for GHG emissions, whereas the GRI Standards also ask for information around management of impacts and risks and control mechanisms, etc. Without comprehensive knowledge about impacts, companies and organizations are ill equipped to make fundamental changes, and stakeholders are not empowered to engage about expectations.

Our recommendation is to include specific guidance for companies, that includes references to existing reporting Standards and reporting frameworks (such as GRI), to ensure consistency, complementarity, and comparability. This would not only improve the comparability and quality of information available for primary users but would also improve clarity for reporting organizations. One way of doing this for example, is including linkages for all the respective disclosures and their aligned disclosures from other frameworks.

- **6) C) 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?**

More than 10,000 companies worldwide (including 67% of the global fortune 500 companies) are using the GRI Standards each year to report their sustainability impacts. The GRI Standards are made freely available for companies to access and as such we have no control over their usage. Furthermore, the GRI Standards enable reporting organizations to report to a wide range of stakeholders, rather than being only investor focused.

According to a 2020 KPMG report, GRI remains the most commonly used reporting standard or framework, used by around two-thirds of N100 reporters and around three-quarters of G250 reporters. The application of the GRI Standards (introduced at the end of 2016) has significantly increased compared with 2017. Whereas, for comparison, according to the KPMG report, only 18% of N100 companies report climate risks in line with TCFD recommendations.[2] Furthermore, almost one third of reporting provisions globally refer to the GRI Standards,[3] and over 90% of ESG Disclosure Guidelines on the SSE Database reference the GRI Standards.[4]

It must also be mentioned that various bodies in Canada have been referencing GRI in their provisions even prior to the establishment of the Task Force on Climate Disclosures. For example, in 2014 the Foreign Affairs, Trade and Development Ministry of Canada recommended GRI as a reporting framework in the 2014 CSR Implementation Guide for Canadian Businesses. In the same year, Toronto Stock Exchange published an Environmental and Social Disclosure Guidance manual, where it was noted that leading reporters use the GRI framework in their reporting.[5] The revised 2020 edition also references GRI as a Standard framework that can be used for disclosure. The CSA themselves referenced GRI back in 2010 in the 51-333 Environmental Reporting Guidance.

- **Sector specific reporting**

At present, there is no widely-used comprehensive globally applicable framework based on an inclusive consensus on which sustainability impacts are material for specific types of companies or industries. Practice shows that companies operating in the same industry identify largely overlapping sustainability issues for their reports, but not exactly the same issues are seen as material.

Sustainability reporting enables an organization to publicly disclose its most significant impacts and how it manages these impacts. However, reporting by individual organizations has been inconsistent in addressing a sector's key challenges and impacts. Possible reasons for this include for example, lack of clarity on a sector's most significant impacts and inconsistent application of the principles for defining report (as explained in GRI 1.)

To ensure that reporting organizations are addressing the most significant impacts specific to their sectors, the GSSB initiated the GRI Sector Program in 2019. The Sector Standards will identify and describe one or more sectors' most significant impacts from a sustainable development perspective. They are intended to focus sustainability reporting on the impacts that matter most, as well as reflect stakeholder expectations for a sector's sustainability reporting.

GRI has defined 4 sector clusters of priority, based on both footprint and impact:
- Oil and gas- Launched on 5 October 2021
- Mining –Public comment period expected in Q4 2022
- Coal-Public consultation closed on 30 July 2021, expected release in Q1 2022
- Agriculture, Aquaculture and Fishing – Expected release in Q1 2022

[2] https://assets.kpmg/content/dam/kpmg/xx/pdf/2020/11/the-time-has-come.pdf
[3] See Carrots and Sticks Online Database (figure as of January 2022) https://www.carrotsandsticks.net/
[4] https://sseinitiative.org/esg-guidance-database/
[5] https://www.tsx.com/resource/en/73

The Sector Standards will clarify the reporting that is expected of organizations in a given sector and assist them in identifying material topics and what to report for each material topic.

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?

There are several ways in which an organization can enhance the credibility of its sustainability reporting. These include the use of internal controls, external assurance, and stakeholder or expert panels. GRI believes that there is certainly a strong case for assurance, particularly in conjunction with mandated reporting. Stakeholders benefit from being able to place trust in the reported data, as this enables them to inform their decision making, as well as increasing reliability and comparability.

The GRI Standards do not require but recommends that organizations should seek external assurance for its sustainability reporting. Disclosure 2-5 in GRI 2: General Disclosures 2021 requires the organization to describe its policy and practice for seeking external assurance for its sustainability reporting. If the sustainability reporting has been externally assured, the organization is also required to describe what was assured and on what basis.

One of the reporting principles under GRI 1. Foundation 2021 is verifiability, whereby the organization shall gather, record, compile, and analyze information in such a way that the information can be examined to establish its quality. To apply the verifiability principle the organization should set up internal controls and organize documentation in such a way that individuals other than those preparing the reported information (e.g., internal auditors, external assurance providers) can review them.

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?

GRI believes that organizations should not need to repeat information, provided that they clearly reference the location of the information, and that it is clearly accessible to their stakeholders. If the information has already been reported and compiled with the same level of rigor, there is no reason that this information cannot be accepted.

For example, the GRI Standards state that if the organization intends to publish a standalone sustainability report, it does not need to repeat information that it has already reported publicly elsewhere, such as on web pages or in its annual report. In such a case, the organization can report a required disclosure by providing a reference in the GRI content index as to where this information can be found (e.g., by providing a link to the web page or citing the page in the annual report where the information has been published).[6]

Usefulness and benefits of disclosures contemplated by the Proposed Instrument

[6] https://www.globalreporting.org/pdf.ashx?id=12358

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?

GRI believes that it is important for companies to report their impacts based on the concept of double materiality. Providing investors and other stakeholders, with clear and comparable information about its impacts on the world, as well as on how those impacts can influence a company's financial health/performance and long-term enterprise value creation.

Even if not financially material at the time of reporting, most, if not all, of the impacts of an organization's activities and business relationships on the economy, environment, and people will eventually become financially material issues. The impacts are therefore also important for those interested in the financial performance and long-term success of the organization. Understanding these impacts is a necessary first step in determining related financially material issues for the organization.

There is no identifiable point at which an issue facing the world suddenly transforms from a "systemic" risk to society or the environment to a financially material risk to the individual entity. A key determining factor, is the time horizon which an investor uses, the longer they hold on to a position, the more that these risks need to be factored in. Companies should be required to disclose their impacts on people, economy and the environment regardless. If not already financially material at the time of reporting, these impacts are important to society and in many cases represent leading indicators of financially material issues over time. Even within one industry, registrants may not be involved in exactly the same scope of economic activities or local context. This is why disclosure should be principle-based and determined by the reporter, who is best positioned to assess what information is meaningful to stakeholders.

The impacts of an organization's activities and business relationships on the economy, environment, and people can have negative and positive consequences for the organization itself. These consequences can be operational or reputational, and therefore in many cases financial. For example, an organization's high use of non-renewable energy contributes to climate change and could, at the same time, result in increased operating costs for the organization due to legislation that seeks to shift energy use toward renewable sources.

- **<u>On additional information</u>**

The revised Universal Standards <u>introduce minimum reporting requirements for all organizations</u> using the GRI Standards, including, but not limited to, information on:

• the organization's policy commitments for responsible business conduct, including the policy commitment to respect human rights, and how the commitments are embedded throughout the organization's activities and business relationships;
• the grievance mechanisms and other remediation processes in place;
• the engagement with (affected and potentially affected) stakeholders;

• the due diligence processes for identifying actual and potential negative impacts on the economy, environment, and people, including impacts on their human rights, across the organization's activities and business relationships;
• the prioritization of impacts based on their significance, or severity in the case of negative human rights impacts, to determine material topics for reporting;
• the management of material topics, including information on specific policies, goals and targets, actions to prevent, mitigate, and remediate negative impacts, and the effectiveness of actions taken.

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?

GRI strongly supports global applicability of ESG reporting requirements, and for the various frameworks and Standards to be used in a complimentary manner. For example, the proposed creation of a two-pillar structure under the EFRAG umbrella to drive the necessary and appropriate reporting by organizations is supported by GRI. We strongly believe that all companies need to prepare two comprehensive reports to provide all stakeholders a complete and relevant picture of their impacts; one addressing financial considerations and the other addressing all external impacts a company is having on society and the environment and hence their contributions towards the goal of sustainable development. The proposed structure safeguards against one of the two being underweighted.

Both financial reporting and non-financial reporting should be mandated, but also pursued with the same level of rigor. Due to a change in societal norms and expectations, there is also growing calls for accountable behavior of businesses and investors.

A globalized and complimentary system will unlock the value of the information by easing comparability and analysis while minimizing reporting burden. With the Standards being drafted both by EFRAG and ISSB on the horizon for reporting organizations, it is critical that companies are well prepared, and fully aware of the existing frameworks, and how each can meet their needs.

We therefore recommend adding further to this benefit by very clearly setting out the current reporting framework for companies.

Costs and challenges of disclosures contemplated by the Proposed Instrument

11. What are the anticipated costs and challenges associated with providing the disclosures contemplated by the Proposed Instrument?

NA.

12. Do the costs and challenges vary among the four core TCFD recommendations related to governance, strategy, risk management, and metrics and targets? For example, are some of the disclosures more (or less) challenging to prepare?

N.A

13. The costs of obtaining and presenting new disclosures may be proportionally greater for venture issuers that may have scarce resources. Would more accommodations for venture issuers be needed? If so, what accommodations would address these concerns while still balancing the reasonable information needs of investors? Alternatively, should venture issuers be exempted from some or all of the requirements of the Proposed Instrument?

Initially setting up reporting processes requires more resources, however, once institutionalized, the additional burden will be limited. Furthermore, as referenced in some of our above answers, companies that are part of the global value chain will be subject to these disclosure requirements. Therefore, if reporting requirements in Canada are standardized based upon existing standards (e.g. GRI) and protocols (e.g. GHG), this will assist companies in

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

As mentioned, a complimentary system whereby the framework for reporting organizations is clearly set out would be beneficial. Therefore, we would recommend the following resources, and linkage documents;

- GRI Standards and Global alignment (Includes GRI and SASB, GRI and B Lab, GRI and CDP etc).
- Integrating SDGs into sustainability reporting

Furthermore, a 2019 study conducted by the Corporate Reporting Dialogue, which explored alignment between the TCFD recommendations and various frameworks concluded that the GRI standards are very well aligned with the TCFD recommendations. Overall, 80% of the TCFD's 50 illustrative metrics are fully or reasonably covered by CDP, GRI and SASB indicators.