



February 11, 2022

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

Via email: comment@osc.gov.on.ca
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Dear Sir/Madam,

Re: Response to Proposed National Instrument 51-107 *Disclosure of Climate-Related Matters* (“the Proposed Instrument”) and its companion policy (“the Proposed Policy”)

British Columbia Investment Management Corporation (BCI) is an investment manager with over CAD \$199 billion in assets under management, and one of the largest institutional investors in Canada. Our

investment activities help finance the pensions of approximately 500,000 people in our province, including university and college instructors, teachers, health care workers, firefighters, police officers, municipal and other public sector workers. On behalf of these pension beneficiaries, we provide long term capital to companies around the world that we believe will deliver strong and stable financial returns.

BCI welcomes the opportunity to provide feedback to the Canadian Securities Administrators (CSA) on the important topic of climate-related disclosure. The broad field of disclosure on environmental, social and governance (ESG) material issues is evolving rapidly, and Canadian companies must maintain credibility with global investors who increasingly demand high quality ESG disclosure.

Our comments build on previous views expressed to both the Expert Panel on Sustainable Finance in 2019 as well as to the Capital Markets Modernization Task Force in 2020 in support of a mandatory disclosure regime consistent with the Taskforce on Climate-Related Financial Disclosures (TCFD). The specific questions posed by the CSA are addressed below that relate to the experience of investors.

Climate change is one of the key strategic priorities for BCI given that we view it as a systemic risk that will impact the entire economy. For further information about how we approach this priority as an investor, I would point you to our Climate Action Plan <https://www.bci.ca/wp-content/uploads/2019/06/BCIs-Climate-Action-Plan-and-Approach-to-the-TCFD-Recommendations.pdf>. This document was published in 2019 and we are looking to update it later this year as the pace of change has been swift and our practices continue to evolve.

Disclosure of GHG Emissions and Scenario Analysis (Questions 4-7)

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?

It is our view that the approach taken in the Proposed Instrument is not appropriate and presents a gap in disclosure if scenario analysis is not required for at least some companies. While we would agree that scenario analysis is not material for all companies or industries, it is material for those that are capital-intensive with long life assets. Scenario analysis provides important context for a company's capital allocation strategy and gives investors an understanding of how resilient a company's strategy is in light of various scenarios.

Despite scenario analysis being in the earlier stages of development, simply knowing if an issuer has considered various scenarios in their capital planning processes is useful information. The scenarios used, parameters tested, and key assumptions made provide investors with valuable insight into the rigour in which climate related risks and opportunities have been integrated into the company's oversight mechanisms, culture and operations. The CSA could provide additional guidance to those industries where it is considered material, such as those identified by the TCFD, within the Proposed Policy and require this on a comply or explain basis¹. This would be more flexible for issuers and would not require disclosure for industries where it is not as material. It is also important to note the Technical

¹ The TCFD suggests companies that are more significantly impacted by transition risk and physical risk, consider disclosing more robust scenario analysis. This includes companies in fossil-fuel based industries, energy intensive manufacturing, transportation, agriculture, infrastructure, insurance and tourism. See <https://www.tcfhub.org/faq/>.

Readiness Working Group of the IFRS has drafted a prototype climate change standard and it does include scenario analysis. This indicates the direction of travel at the global level.

Scenario analysis does not need to be an exhaustive process that requires an issuer to build scenarios from scratch. Seeing that there is wide variation in how society will actually achieve net zero by 2050, it is important for those companies making long term investment decisions to at least reference and consider a range of pathways that are both more conservative and more aggressive in terms of policy action and technological advancement. A sound strategy should do this in the normal course of business as issuers already stress test, challenge their assumptions, consider alternatives, etc. Scenario analysis can be thought of as an extension of this existing business planning process.

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?

It is the view of BCI, that investors require a baseline inventory of emissions associated with their investments. Investors are also expected to report in line with TCFD and in order to do so, we require full and complete data that is not estimated by third parties. Estimates dominate when companies do not report their own emissions and they can vary widely from actual emissions. Scope 1 emissions only, does not provide investors with a full and complete data set.

Given that carbon prices will rise to \$170 per tonne by 2030 in Canada as well as the rising cost of energy as a proportion of total operating costs, we would argue that Scope 1 and Scope 2 GHG emissions are material for all companies. BCI would expect that disclosure of these emissions be mandatory for all issuers. Scope 3 however, is highly dependent on the business model and this disclosure could be based on a materiality assessment and not mandatory for all issuers. For example, the Science-Based Targets Initiative (SBTi) suggests that Scope 3 is material when they represent more than 40% of total emissions. This could be a useful resource to include in the Proposed Policy.

From an investor perspective, timing has been a common issue as ESG data has lagged that of traditional financial reporting. When we make investment decisions, we are leveraging both financial and ESG data so the more issuers can bring their GHG emissions reporting in line with that of financial reporting, the more complete picture we have of an issuer.

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.

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 accepted standard when it comes to GHG emissions reporting and it would be ideal if the CSA could endorse this and mandate its usage to avoid new reporting issuers adopting other standards. Comparability and consistency are crucial for investors so adherence to a single standard would be our preferred recommendation.

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?

External assurance is becoming more common for ESG data and we see this as a welcome evolution. Investors have confidence in externally verified numbers regardless of whether they are traditional financial results or ESG performance. Based on an international benchmarking of practices, the International Federation of Accountants estimates that over 50% of companies reviewed which reported ESG data, utilized some form of assurance. In the Canadian companies reviewed, the rate of assurance was slightly below this at 44.7% (see <https://www.ifac.org/system/files/publications/files/IFAC-Benchmarking-Global-Practice-Sustainability-Assurance.pdf>).

BCI can appreciate that it takes time for companies to establish processes and procedures to prepare for an assurance exercise. While we do not expect this immediately from companies, we do expect that data quality improves over time with the use of assurance within a three year time frame.

Usefulness and benefits of disclosures contemplated by the Proposed Instrument (Questions 8 -10)

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?

BCI would clearly prefer to see GHG emissions disclosure in regulatory filings. If issuers are referring to other documents for this portion of the requirements, those documents may not undergo the same level of scrutiny as regulatory filings. This maintains credibility and integrity of the data while not being burdensome as it is a small portion of information that needs to be replicated.

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?

When reviewing potential and current investments, BCI seeks GHG emissions disclosure ideally using historical trends to determine the trajectory of emissions. Detailed emissions data allows us to determine the impact of potential regulatory risk such as carbon prices over time, methane reduction regulation or emission caps as recently proposed by the federal government. This emissions data would be looked at in absolute terms but also benchmarked against peers. This is also the emissions data relied on when conducting BCI's carbon footprint exercise on an annual basis. If company's do not disclose this data, we receive estimated emissions from third party providers.

To assist in providing context to this emissions data, we would then look to the strategy and governance of the company to understand how it all fits together. If we deem climate change to be material to an investment and we do not have sufficient information to understand how the risk is being managed, or the company lacks sufficient goals and targets, we do take voting action against certain directors. Also important for our voting decisions, is the progress being made within our engagements with issuers. When we are not satisfied with the pace of progress within our engagements, we will escalate by voting against certain directors at the annual general meeting.

For BCI, the TCFD guidance provides the ideal mix of qualitative and quantitative information required for decision-making. One is not sufficient without the other in a similar way that financial statements should not be read without the related commentary.

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?

It would serve Canada well to align with TCFD disclosure requirements given the international trajectory of mandatory climate-related reporting requirements. It not only provides the market with the information required for decision-making but increases the ability of Canadian companies to attract capital from global investors. Compared to current levels of disclosure, the Proposed Instrument will bring more consistency for investors as most disclosure remains voluntary and various approaches are being taken.

Canada needs to be competitive on a global scale. As a resource-based economy, our companies need access to a global diversified investor base. On climate-related matters, demonstrating how Canadian companies are managing climate-related risks and impacts will be critical to success. The direction of travel is clear on this. Canadian companies have the opportunity to show leadership in this area, but that won't happen by taking incremental steps that will be quickly and easily leapfrogged in a relatively short timeframe.

Another advantage to the Proposed Instrument that we see, is leveling the playing field between small cap and large cap issuers. Climate change risk does not present itself differently according to company size and our experience managing small cap mandates illustrates that small cap issuers are not currently providing adequate climate change disclosure. Implementation of the Proposed Instrument with some modification can rectify this situation.

Costs and challenges of disclosures contemplated by the Proposed Instrument (Questions 11 – 13)

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

There are clearly some costs associated with the Proposed Instrument, but we cannot lose sight of the fact that there is a cost of not disclosing as well. Given the momentum around companies setting net zero targets and investors that have committed to invest in line with net zero, there will only be increased desire for this information going forward. Currently, investors are bearing the cost of sourcing estimated emissions data in the absence of full disclosure from issuers. The expectations of global investors, stakeholders and consumers are increasing and companies that fail to demonstrate how they are addressing the risks associated with climate change run the risk of becoming less competitive and increasing their cost of capital.

In our view, adherence to TCFD is not a materially significant cost for issuers and the benefits far outweigh those costs. Especially in considering that the Proposed Instrument is presented as a comply or explain approach, if companies do not consider climate change to be material, they simply need to justify this. Many of the larger issuers have been assuming such cost for many years now and it is our impression that most of the cost is upfront to establish systems to capture emissions data. Outside of this, it is primarily human capital that is required, and many options exist for outsourcing at a reasonable cost.

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?

It is BCI's view that metrics and targets as well as components of strategy are most costly and challenging. However, most of the TCFD recommendations are meant to align with existing business processes for ease of implementation. Governance, for example, requires very little as it is simply a matter of discussing existing board and committee structures, continuous education, etc. Risk management is similar in that all issuers need to have a risk management framework and process established and TCFD fits nicely into that. Even scenario analysis, if it is material for issuers, can utilize many open-source resources such as the International Energy Agency (IEA) scenarios. Issuers do not need to embark on a costly internalization of scenario building to meet the expectations of TCFD.

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?

No comment as BCI has minimal exposure to venture issuers.

Guidance on disclosure requirements (Questions 14 – 15)

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?

While the CSA does prompt issuers to consider certain publications from the TCFD, there is also the TCFD Knowledge Hub which provides case studies and educational resources along with industry specific guidance that issuers might not be aware of.

The TMX Group has been developing tools and resources for issuers and all are available at no cost. They partnered with IHS Markit to create the ESG Reporting Repository that allows issuers to create disclosure using global frameworks such as the TCFD.

Something that the CSA should carefully consider in terms of guidance, is whether companies require a specific safe harbour clause to encourage quality reporting as contemplated by the Instrument. Existing safe harbours can be utilized to a certain extent, although this would not cover many aspects of TCFD reporting that is not forward-looking. BCI can see a case for a safe harbour provision for certain types of information that is not always in the company's control. Scope 3 emissions, especially for financial institutions, are dependent on client or portfolio company emissions reporting. Such guidance may be reassuring for issuers and provide more detailed disclosure to investors particularly in the early years of implementation.

Does the guidance set out in the Proposed Policy sufficiently explain the interaction of the risk disclosure requirement in the Proposed Instrument with the existing risk disclosure requirements in NI 51-102?

Yes, this is sufficient.

Prospectus Disclosure (Questions 16)

Form 41-101F1 Information Required in a Prospectus does not contain the climate-related disclosure requirements contemplated by the Proposed Instrument. Should an issuer be required to include the disclosure required by the Proposed Instrument in a long form prospectus? If so, at what point during the phased-in implementation of the Proposed Instrument should these disclosure requirements apply in the context of a long form prospectus?

As stated earlier, if this information is material to the business, a Prospectus should not be considered any differently and it should be disclosed.

Phased-in implementation (Question 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?

BCI has advocated for mandatory climate change disclosure for at least three years now so we feel that the phased-in transition provides a generous amount of time for issuers to adapt. However, we question phasing in the requirements based on market capitalization and not materiality. This approach will result in investors waiting three years for climate change disclosure at some companies where it is clearly material to investment decision-making. Even for non-venture issuers, investors will be waiting another two years for the disclosure in the Proposed Instrument. We would encourage the CSA to consider shortening these timelines.

Future ESG considerations (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?

BCI views the work of the International Sustainability Standards Board as crucial to advancing global baseline expectations on ESG disclosure. We can appreciate how climate change disclosure is being prioritized considering the broad regulatory push in this area but we would caution regulators in taking an issue-specific approach to ESG disclosure. Certain ESG issues are material to some companies but not material to others and for this reason, we favour a materiality-based approach that largely takes an industry-specific lens to disclosure. We are encouraged by the Value Reporting Foundation (VRF) incorporation under the IFRS umbrella and hope that this will solidify an industry-based approach based on SASB standards.

BCI would recommend that the CSA watch developments in the U.S. on this front as we are expecting consultations from the SEC in 2022. We have seen more focus on human capital by the SEC which is an issue affecting all companies and does not necessarily rely on an industry-specific framework. Closely related to human capital, is the interest investors have demonstrated in diversity and inclusion issues including the role of business as highlighted by the Truth and Reconciliation Commission of Canada.

Conclusion

Overall, BCI sees the benefits of a mandatory climate disclosure regime outweighing the costs. We also must recognize the cost of not disclosing information that investors have been calling for as issuers compete for capital in a global market. While this can be challenging for issuers that have not yet reported using the TCFD framework, a variety of tools and resources now exist to support issuers. The trend towards mandatory disclosure is irreversible with global and regional developments at the IFRS

Foundation, among stock exchanges, credit rating agencies, central banks and institutional investors. Canada has an opportunity to lead for the benefit of both investors and issuers.

Please do not hesitate to reach out to Jennifer Coulson, Senior Managing Director ESG at jennifer.coulson@bci.ca if you require further clarification of our position.

Regards,

Daniel Garant

Executive Vice President & Global Head, Public Markets