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February 13, 2022

To: The Secretary
Ontario Securities Commission
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Dear Secretary,

Regarding: CSA Consultation: Climate-related Disclosure Update and CSA Notice and Request for Comment on Proposed National Instrument 51-107 *Disclosure of Climate-related Matters.*

We are writing to provide general support for the Proposed NI 51-107, with some targeted feedback on specific areas of the proposal. As a wholly owned subsidiary of Scotiabank, Scotia Global Asset Management, through its registrant 1832 Asset Management L.P., manages over C$234 billion for approximately 1.7 million retail, institutional, and high net worth clients. We are both a consumer of financial and non-financial reporting from issuers that we invest in and a producer of financial reports, primarily through the products we offer to our clients. We are an active member of several responsible investment organizations, we have invested considerable resources into the integration of ESG factors in our investment processes, and we continue to launch investment products with a focus on responsible investment. Consistent and reliable sustainability reporting from companies is increasingly important for a variety of stakeholders. We appreciate the opportunity to provide comments to the CSA.

While we are supportive of enhancing ESG disclosures from Canadian issuers, we are also keen to ensure that any new rules do not create an excessive burden for issuers and consume resources that could be spent on more productive uses. It will be important to avoid requiring disclosure that is immaterial, and only marginally relevant for stakeholders. Public capital markets are an important way for growing companies to fund expansion. It will be imperative to ensure that public disclosure requirements do not create an excessive burden and significant disincentives for companies to list for a public offering. That risk is heightened in certain sectors that are important for the Canadian economy. The inclusion of a materiality threshold for much of the disclosure requirements in NI 51-107, the ability to opt out of disclosures and explain, the phase in periods, and no requirement to conduct scenario analysis, all combine to provide reasonable mitigants to the potential burdens on issuers and help focus on the most relevant information for investors.

The world is evolving, and the trend globally is to require heightened disclosures on climate and ESG issues generally. The CSA focus on TCFD as the reporting standard to adopt in NI 51-107 is appropriate and consistent with initiatives in many other mature capital market jurisdictions globally. However, Canada can take the time to get it right. An important point we want to highlight is that we are in strong agreement with the CSA's support for the IFRS process to create a new Sustainability Standards Board (SSB). The new SSB would have the credibility to harmonize global reporting standards on ESG. We expect CSA rules and requirements to be consistent with whatever the SSB eventually develops. We therefore suggest avoiding being overly prescriptive and expansive in the near term on what NI 51-107 and other rules require in Canada, to ensure flexibility to comply with any future standards created by the SSB.

Experience with TCFD recommendations
1. For reporting issuers that have provided climate-related disclosures voluntarily in accordance with the TCFD recommendations, what has been the experience generally in providing those disclosures?

N/A.

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?

N/A.

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?

N/A.

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?

The approach to not require scenario analysis is appropriate at this time. Scenario analysis should not be mandatory, as there are no standard methodologies or assumptions to guide the analysis for issuers. Scenario analysis requires a wide range of assumptions about uncertainty far into the future. As a large investor, we find limited utility in detailed long range scenario analysis from different issuers that is not comparable nor consistent. Scenario analysis on climate-related issues will have limited relevance and materiality for issuers in certain sectors. To have meaningful utility to our investment process, we would have to build our own scenarios for each issuer and be able to adjust internal assumptions as needed. The increased disclosure requirements in other sections of NI 51-107 are much more important for investment decisions and will create significant costs and resources for issuers to satisfy, especially for smaller venture issuers. The focus should be for issuers to develop the internal infrastructure and allocate the resources to properly satisfy the other more important requirements in NI 51-107 before having to develop scenario analysis.

In the future as issuers have fully implemented the other requirements under NI 51-107, and as more consistent approaches to scenario analysis evolve, the CSA could revisit further requirements for scenario analysis.

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

• 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 approach to require the disclosure of GHG emissions only where such information is material is appropriate. Requiring disclosure of GHG emissions will create significant costs for issuers to develop the infrastructure needed to calculate and maintain records on the emissions. Where such information is not material it is not a good use of resources by issuers. Focusing on materiality will prevent issuers who don't have substantial commercial and strategic need to address climate-related issues from having to dedicate significant incremental resources on climate disclosures with minimal commercial or financial benefit. In certain sectors the required disclosures are basic good business practice and support existing regulatory requirements even for venture issuers, so the disclosures should not be an onerous incremental burden.

Maintaining issuer flexibility to choose to not disclose and explain why not provides further accommodation to venture issuers that is important and is therefore an appropriate approach. For issuers where the emissions are material, it could impact their cost of capital if they choose not to disclose while their peers do. If emissions are material and they still choose not to disclose, then it is likely because the reporting burden is significant. Even with a materiality threshold the option to choose not to disclose emissions could still serve a purpose for certain issuers. Many issuers are choosing to stay private because of meaningful disincentives to list publicly, and it is important to avoid continuing to add to that list of disincentives.

• 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?

We suggest adopting the alternative approach to require disclosure of only Scope 1 emissions, where they are material, and to maintain the option to not disclose and explain why. Requiring disclosure of GHG emissions will create significant costs for issuers to develop the infrastructure needed to calculate and maintain records on the emissions. Where such information is not material, it is not a good use of resources by issuers to have to calculate and disclose them. This alternative approach allows flexibility for issuers to take time to develop reporting capabilities and infrastructure. It avoids the excessive reporting challenges for Scope 2 and 3 information that is less impactful for investment decisions than Scope 1 emissions. Requiring disclosure on Scope 2 and 3 will create heightened requirements for many issuers on emissions that are beyond their control, and that carry significantly higher reporting challenges than Scope 1. As an investor, Scope 1 is much more relevant and material to assessing the actual exposure of an issuer to carbon pricing and other factors. Scope 1 is also much more relevant for gauging tangible action by issuers to manage their transition to a lower carbon future through initiatives that are fully within their control. It helps create a baseline for how an issuer is managing climate risk over time. Having Scope 1 emissions data that is comparable and reliable will be an important step in enhancing information in the market and comparing issuers.

There are significant practical challenges to reporting Scope 3 emissions, and still considerable global debate on the appropriate methodology for measuring them. Making the new climate disclosure requirements mandatory will create significant data challenges for issuers even for Scope 1, and extending requirements to Scope 2 and 3 emissions seems excessive for the foreseeable future. How Scope 3 emissions can be used in investment decisions, given the measurement challenges and double counting issues, is still up for debate. We believe the utility of Scope 3 emissions is unclear for stakeholders. The alternative approach the CSA contemplates that will focus on Scope 1 emissions seems more viable and helpful for investors for the foreseeable future.

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

Disclosure of Scope 2 and 3 GHG emissions should not be mandatory. There are significant practical challenges to reporting Scope 3 emissions, and still considerable global debate on the appropriate methodology for measuring them. Making the new climate disclosure requirements mandatory will create significant data challenges for issuers even just for Scope 1, and extending requirements to Scope 2 and 3 emissions seems excessive for the foreseeable future. How Scope 3 emissions can be used in investment decisions, given the measurement challenges and double counting issues, is still up for debate. We believe the utility of Scope 3 emissions is unclear for stakeholders. The alternative approach the CSA contemplates that will focus on Scope 1 emissions seems more viable and helpful for investors at this stage.

• *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?*

N/A

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.

• *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?*

Yes, this is entirely an appropriate approach. One of the key benefits of NI 51-107 will be to provide comparable and reliable GHG data. Providing issuers flexibility on whether to disclose GHG emissions or not, and maintaining the materiality threshold, help avoid excessive burdens for issuers to report information that is of limited value. However, should issuers decide to disclose GHG emissions it will have to be in a consistent framework and measurement approach for there to be any utility for investors. Investors will require confidence about how the GHG emissions were calculated and that they are comparable across issuers and sectors. The GHG Protocol has a long track record and is a globally recognized methodology. For issuers that disclose GHG emissions the requirement to adopt the GHG Protocol should not create meaningful incremental costs relative to any other methodology. Given the importance of comparability of data that is disclosed by issuers, we don't see any practical justification for issuers adopting an alternative GHG methodology.

• *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?*

The GHG Protocol is the appropriate standard to base disclosure requirements on, as it is globally recognized and has a reasonable track record. The GHG Protocol has reasonable flexibility to be relevant across different sectors. For issuers that disclose GHG emissions the requirement to adopt the GHG Protocol should not create meaningful incremental costs relative to any other methodology. Given the importance of comparability of data that is disclosed by issuers, we don't see any practical justification for issuers adopting an alternative GHG methodology.

• *Are there other reporting standards that address the disclosure needs of users or the different circumstances of issuers across multiple industries and should they be specifically identified as suitable methodologies?*

We are not aware of alternative methodologies that are clearly superior to the GHG Protocol and would have practical justification for issuers to adopt instead. The Partnership for Carbon Accounting Financial (PCAF) is a sector focus accounting methodology for the financial sector. It should not be incompatible with NI 51-107 as drafted, but could build on the requirements.

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?

If the Proposed NI 51-107 adopts the approach to focus on Scope 1 emissions, and maintains the materiality threshold for disclosure, then it is reasonable to phase in a requirement for third-party assurance on GHG emissions reporting. Scope 1 emissions are a reasonable burden to calculate, especially when they meet a materiality threshold for investors. For investors to make use of the GHG emission reporting they will require confidence in the accuracy and comparability of the metrics, and third-party assurance would enhance that confidence. A phased in approach will give issuers the flexibility to implement procedures to measure the emissions over a reasonable timeframe and give the third-party auditing industry the time to develop the appropriate expertise and resources to provide the assurance services to issuers on GHG emissions. A four-year phase in period would be reasonable.

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?

The Proposed Instrument should not permit an issuer to reference another document. It is appropriate to manage the burden on issuers for reporting requirements. However, copying and pasting information from one document into another is not a burden. Having all required disclosures in existing continuous disclosure documents helps investors digest the information and find it with reasonable effort. It enhances transparency in the market. Adding additional documents that are not part of existing disclosure requirements for investors to find material information does not seem to be a positive development for the market. Investors also have reasonable confidence that the information contained in existing reporting documents has been subject to appropriate governance processes and professional review. There would be no assurance for investors that any additional documents not part of required reporting would be subject to the same controls and procedures, which could impair confidence in the information and ultimately impair the utility for the market.

Usefulness and benefits of disclosures contemplated by the Proposed Instrument

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?

Climate-related information such as GHG emissions intensity is important to compare issuers against their peers. It helps gauge climate-related risks with more precision. Having information on GHG emissions, any targets for those emissions, and insight into their strategic planning and risk management, all facilitate analysis on whether the company has a coherent strategy to manage exposures to climate-related issues and GHG emissions. Comparable disclosures across issuers helps assess which issuers are best prepared to manage increasing regulatory, public perception, and physical risks related to climate-change. The disclosure also helps identify companies making progress along key climate-related issues, and those best positioned to thrive in the future. These disclosures are a good starting point to understanding the action being taking by each company to manage their exposures and meet any public commitments they have made on reducing emissions. Where issuers make public commitments with little tangible planning to meet those commitments it can be a signal of governance issues and raise fundamental questions about management credibility.

Helpful information that is not explicitly mentioned under NI 51-107, but is perhaps implicitly covered by existing disclosure rules, would be any ESG or climate-related metrics that are key performance indicators in executive compensation.

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?

Commercial imperatives and investor pressure are already driving many companies to attempt some climate-related disclosure. However, lack of comparability and third-party assurance give it little credibility and usefulness. The greater transparency and consistency of methodology under NI 51-107 will facilitate engagements and holding companies accountable to making tangible improvements, and having coherent strategies to deal with risks and opportunities. Having direct comparability across peers within a sector and across sectors can help understand relative risk and strategic positioning. Increased transparency may push management to take tangible action that may not have been appropriately incentivized by the market in the past. NI 51-107 will provide investors with more confidence in the climate-related disclosures because their inclusion in legally required reporting documents will subject the disclosures to similar governance procedures and oversight as other required information. Investors will be able to spend less time trying to assess the credibility and accuracy of climate-related disclosure by issuers, and more time analyzing the information itself. The information should help investors more accurately gauge risks and be able to reward good actors with lower cost of capital, improving market efficiency.

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?

We will not be required to disclose information under NI 51-107. However, based on experience with new accounting rules and incremental disclosures, issuers not already required to do so will incur new costs through dedicated staff to gather information, document, and maintain calculations of GHG emissions. Just as important are senior management time and effort to create the required infrastructure to oversee and maintain the integrity of the information that is disclosed. Over time if auditing of metrics is required it could imply meaningful incremental costs to issuers.

For the qualitative disclosures required on Governance and risk management, the hope is that most issuers would already include some consideration for climate-related risks in those areas of their oversight processes. That is especially true for issuers where climate-related issues are material. There may be some initial labour costs by legal teams and accounting teams to draft the disclosures, but the costs to update these disclosures over time should be marginal as the information would likely only change incrementally going forward. The Strategy and Metrics sections will likely require meaningful legal and accountant time to prepare on an ongoing basis.

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?

Based on our understanding, we would view the Governance and Risk Management sections to be less onerous and intrusive than the Strategy and Metrics sections. Those latter sections that subject to a materiality threshold will likely have to be updated more regularly and require more detailed reporting infrastructure. It is also unusual to require public disclosure on proprietary corporate strategy for a specific issue or risk, so issuers will have a delicate balance to protect competitive information on strategy while providing adequate disclosure on climate related strategic planning.

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 the requirements of the Proposed Instrument?

We agree that is important to be mindful of the burden that increased reporting requirements put on issuers, especially venture issuers. There is a special concern for smaller issuers that public disclosure requirements should not create an excessive burden and significant disincentives for companies to list for a public offering, and thereby cutting off an important source of funding for growth. However, venture issuers should not be exempted from the requirements of the Proposed Instrument.

The accommodations currently contemplated in the Proposed NI 51-107 are generally sufficient for venture issuers, provided that the materiality threshold is maintained for the Strategy and Metrics sections of required disclosures and only Scope 1 GHG emissions are required. That will prevent issuers who don't have substantial commercial and strategic need to address climate-related issues from having to dedicate significant incremental resources on climate disclosures with minimal commercial or financial benefit. In certain sectors the required disclosures are basic good business practice and support existing regulatory requirements even for venture issuers, so the disclosures should not be an onerous incremental burden. Also, maintaining issuer flexibility to choose not to disclose and explain why not provides further accommodation to venture issuers.

The phase-in period of three years provides further accommodation for venture issuers that is sufficient.

Guidance on disclosure requirements
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?

The CSA should not refer to other external guidance or data sources that haven't directly been vetted by the CSA. It is important that CSA guidance is relevant for the Canadian market. Guidance should be prepared by the CSA to ensure its applicability. The CSA has presumably consulted with the TCFD's formal Guidance on Metrics, Targets and Transition plan, along with other TCFD guidance. Those would be the main relevant sources to leverage in preparing the Proposed Policy.

15. 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. It is clear that NI 51-107 does not change the existing disclosure requirements on material information related to climate risks. The Proposed Instrument only enhances those responsibilities to make it clear that GHG emissions may now be material for investors in certain sectors. Also, there could be additional information that may not have been viewed as material under NI 51-102 that may now be assessed as material if looking to compare metrics and disclosures against peers in certain sectors. It adjusts the lens and may heighten disclosure requirements in certain areas, but it is fully consistent in spirit and we don't see anything incompatible with existing NI 51-102.

Prospectus Disclosure
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?

Yes, the information required by the Proposed Instrument should be included in the prospectus, subject to materiality considerations. The requirements will be key in gauging, risks and opportunities, and valuation of a security. The disclosures should be required in a prospectus at the point of the phase-in period that they are required in continuous disclosure documents. It is important to manage the burden on issuers for reporting requirements. However, copying and pasting information from one document into another is not a burden. Not having material information in a prospectus seems to be counterproductive and contrary to the spirit of securities regulation.

Phased-in implementation
17. The Proposed Instrument contemplates a phased-in transition of the disclosure requirements, with non-venture issuers subject to a one-year transition phase and venture issuers subject to a

three-year transition phase. Assuming the Proposed Instrument comes into force December 31, 2022 and the issuer has a December 31 year-end, these disclosures would be included in annual filings due in 2024 and 2026 for non-venture issuers and venture issuers, respectively.

• *Would the transition provisions in the Proposed Instrument provide reporting issuers with sufficient time to review the Proposed Instrument and prepare and file the required disclosures?*

We believe that the three-year phase in for venture issuers is appropriate to help manage incremental costs and resource requirements, especially given the other accommodations on reporting requirements in the Proposed Instrument.

However, we would advocate for extending the phase in period to two years for larger non-Venture issuers for the Strategy and Metrics sections of the required disclosure. Those two sections likely create the largest incremental reporting burden for issuers, and even larger issuers will take time and effort to develop sufficient infrastructure to facilitate proper disclosure in those sections. Our experience is that there is a minimum amount of time to develop reporting infrastructure no matter how many resources are allocated to the issue.

• *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?*

Yes. The accommodations currently contemplated in the Proposed NI 51-107 are generally sufficient for venture issuers, provided that the materiality threshold is maintained for the Strategy and Metrics sections of required disclosures and only Scope 1 GHG emissions are required. That will prevent issuers who don't have substantial commercial and strategic need to address climate-related issues from having to dedicate significant incremental resources on climate disclosures with minimal commercial or business gain. In certain sectors the required disclosures are basic good business practice and support existing regulatory requirements even for venture issuers, so the disclosures should not be an onerous incremental burden. Also maintaining issuer flexibility to choose not to disclose and explain why not provides further accommodation to venture issuers. The three-year phase in just provides further accommodation to help manage the challenges and costs of the new disclosures.

For non-venture issuers, if the phase in period can be extended to two-years for the Strategy and Metrics sections, that should be sufficient to manage the challenges and costs of the new disclosures when combined with the other accommodations outlined above.

Future ESG considerations

18. In its comment letter to the IFRS Foundation's consultation paper published in September 2020, the CSA stated that developing a global set of sustainability reporting standards for climate-related information is an appropriate starting point, with broader environmental factors and other sustainability topics to be considered in the future. What broader sustainability or ESG topics should be prioritized for the future?

We agree with the CSA and IFRS approaches to focus on climate-related information as the starting point for enhanced ESG reporting requirements. Potential further topics for consideration would be water usage, plastic waste management, human capital management, and Diversity & Inclusion.

Regards,

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