Toronto Finance International

TFI Response to CSA Consultation: Proposed National Instrument 51-107 Disclosure of Climate-related Matters

February 15, 2022

To CSA jurisdictions:

On behalf of Toronto Finance International (TFI), we would like to congratulate the CSA on the publication of Proposed National Instrument 51-107 *Disclosure of Climate-related Matters*. As noted in the consultation paper, the focus on climate-related issues in Canada and internationally has grown rapidly in recent years with climate-related risks becoming a mainstream business issue. The disclosure of climate-related risks impacts the ability of our businesses to attract global capital and to seize the opportunities of the transition to a net-zero world.

Climate-related and environmental risks pose significant challenges for the global economy, which may in turn impact financial stability. The financial sector has the capacity to manage its exposure to, and help mitigate, these risks as they continue to manifest in the future. The sector is continuing to enhance disclosure and transparency and is making significant investments to analyze the impacts of climate-related risks and opportunities, including developing new methodologies, data sets and processes.

Furthermore, the financial sector continues to be ready and willing to work with regulatory bodies and other stakeholders to help shape effective regulatory approaches for climate-related and environmental risks. The financial sector looks forward to working with regulatory bodies and stakeholders to improve the completeness, consistency and comparability of climate-related financial disclosures, including implementing key recommendations of the Task Force on Climate-Related Financial Disclosures (TCFD).

Below please find some high-level comments on some of the questions raised in the consultation paper. TFI looks forward to working with the CSA on its ongoing work on climate-related matters. Please do not hesitate to contact us should you have any questions.

Sincerely,

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About Toronto Finance International (TFI)

Toronto Finance International (TFI) is a public-private partnership between Canada's three levels of government, the financial services sector and academia. TFI's mission is to lead collective action that drives the competitiveness and growth of Toronto's financial sector and establishes its prominence as a leading international financial centre. For more information, please visit: www.tfi.ca

Scenario Analysis

When it comes to disclosure rules, it is critically important for Canada to align those rules with other jurisdictions and international bodies as doing so will ensure clear, consistent, and comparable standards.

Scenario analysis is an important aspect of climate-related disclosure but it may be premature to require scenario analysis as common assumptions have yet to be agreed upon, methodologies are not sufficiently developed, and there are significant data gaps that limit the utility of public disclosure. However, in the future disclosure should be encouraged as data and methodologies improve and convergence around a consistent set of scenarios emerges.

If disclosure of scenario analysis is provided, it should include sufficient transparency for investors to understand the rigor behind the assumptions made and considerations of the Paris Climate Accords framework as this will help issuers and investors to better understand climate risks.

Disclosure of GHG Emissions

Typically Scope 1 and 2 emissions are disclosed together as they are within an issuer's control. As a result, requirements related to Scope 1 and 2 should be very similar. Scope 3 emissions, which are downstream emissions, should be subject to a separate set of requirements.

It should be mandatory for issuers to disclose Scope 1 and 2 emissions, with the location of the emissions disclosure within the relevant disclosure documents to be determined by materiality. Scope 3 emissions should be subject to comply and explain, also with the location of the emissions disclosure within the relevant disclosure documents to be determined by materiality.

It is important to note that there are many obstacles with disclosing quantitative Scope 3 emissions data at this stage including the lack of data granularity, comparability, materiality, and access to reliable and validated tools. Market participants are currently not able to rely upon Scope 3 emissions data for decision-making purposes. In the future, Scope 3 emissions could potentially be subject to a materiality threshold in consultation with regulators and industry stakeholders. Finally, although private company disclosure is outside the direct purview of the CSA and the consultation, the CSA could work with stakeholders to explore common disclosure standards for public and private companies.

A core objective of mandatory climate-related disclosure is to provide comparable data. As such, it is in the best interests of all actors to utilize a consistent and mandated standard. Currently, the GHG Protocol is the world's most widely used greenhouse gas accounting standard. It is the most commonly used by existing issuers that report comprehensive and detailed GHG emissions data and there is an infrastructure of support for reporting issuers.

The CSA should also have a default requirement of having disclosures in line with the GHG Protocol and industry standard specific items derived from the GHG Protocol (e.g. the Partnership for Carbon Accounting Financials). Promoting transparency in GHG disclosures is key. For example, if a firm decides to use a GHG disclosure methodology that is proprietary, that issuer should describe the methodology and explain why it is comparable to the GHG Protocol.

Climate-Related Information for Investor Investment and Voting Decisions

The determination of what climate information is most important varies depending on the investor and the company. For example, different types of climate information may have more material financial implications depending on the company, its sector, its location(s), supply chain and clients.

A standard should provide the ability for investors to meaningfully compare companies on whatever climate-related metric is being reported. The standard should also first focus on those areas where calculating methodologies and data quality are more mature and well established. These are the metrics that would provide investors with the ability to meaningfully judge an issuer’s progress on climate issues.

Examples of important climate-related information for decision-making include Scope 1 and 2 emissions intensity (per unit production), emissions compared to peer averages, governance and management of climate related risks (transition risk and physical risk), and strategies to achieve net-zero.

Transition Provisions

A phased-in approach based on the nature of the disclosure is appropriate, with governance and risk management required in the first year across the board for all issuers and full implementation for non-venture issuers within one year of the effective date. Also, given that climate data for venture issuers would be helpful for investors and other market participants, the CSA could support and encourage issuers to make climate disclosures ahead of the mandatory compliance date. Lastly, accommodations could be considered for issuers that do not file an Annual Information Form (AIF), Capital Pool Companies (CPC), and Special Purpose Acquisition Corporations (SPAC).