February 15, 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
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Vancity's Response to Proposed National Instrument 51-107 *Disclosure of Climate-related Matters*

As a values-based financial institution serving over 550,000 member-owners, Vancouver City Savings Credit Union (Vancity) uses the tools of finance and our community relationships to expand economic opportunity, improve the wellbeing of our members, and make our communities better.

We believe that investors have the power to drive a just climate transition. That is why Vancity has committed to supporting a resilient economy that works for everyone and helping our members invest for the future by offering responsible investment options that demonstrate the integrity of their environmental, social and governance (ESG) stewardship process.

Vancity offers a wide range of investment services to its members and clients through its subsidiaries or in long-standing partnership with securities dealers, insurance providers, and other industry participants[1]. Vancity Investment Management (VCIM), a subsidiary of Vancity, was founded in 1995 as one of the first wealth management firms in Canada to focus on investments that deliver competitive returns while making a positive impact on the world. Our process integrates ESG analysis with in-depth financial analysis to identify responsible companies because we believe they are better managed, leading to enhanced resilience, competitiveness, and growth potential. And our efforts continue long after the investment is made. Once a company is selected, VCIM actively monitors the company's ESG progress and uses our rights as shareholders to engage company management.

Vancity is a supporter of the Task Force on Climate-Related Financial Disclosures (TCFD) framework and we have published our own disclosure reports for the past two years. VCIM has also joined the Net Zero Asset Managers Initiative, committing to align our investments with net zero emissions by 2050 or sooner, and setting 5-year interim targets beginning with 2030.

A mandatory standardized framework, such as the TCFD, is critical to ensuring issuers' climate-related disclosures are consistent, comparable, and include the level of information required for investors to make informed decisions. With climate-related risks rapidly increasing and governments taking stronger action to mitigate the impacts, the lack of climate-related information from issuers is currently one of the most significant threats to the integrity of capital markets and the broader economy.

We are already seeing how exposed our economy and people are to risks introduced by the climate emergency. This past summer, in BC alone, the community of Lytton was largely destroyed by a wildfire during a heat dome that also led to hundreds of residents elsewhere in the province dying in their homes and businesses being forced to close their doors as temperatures pushed above 40 degrees Celsius. Just months after that, landslides and flooding cost the province and the country billions of dollars in damage to homes, businesses, and infrastructure, and almost every sector was impacted by supply chains thrown into disarray. It is clear that physical and transition risks are not forward-looking unknowns; they are present and already impacting Canada's financial system, with every issuer facing its own set of risks and opportunities that will compound and interact in unique ways.

As the Bank of Canada (BoC) and the Office of the Superintendent of Financial Institutions (OSFI) note in their recent report on climate risk scenario analysis[2], "transition risks are of particular significance for Canada given its endowment of carbon intensive commodities, [and] the current importance of some of these carbon-intensive sectors for the Canadian economy […] The correct pricing of risks, supported by climate-related financial disclosures, contribute[s] strongly to mitigating these risks."

The climate emergency requires immediate action to transition to a clean economy – one that works for everyone and aligns people, planet, and prosperity. But the lack of accurate information on climate-related risks is leading to the overvaluation of unsustainable assets and the under-valuation

[1] While Vancity's response to the Proposed Instrument is made in the broader context of our climate policies and commitments on behalf of the Vancity group of companies, it does not necessarily reflect the views of its business and industry partners.

[2] https://www.bankofcanada.ca/wp-content/uploads/2021/11/BoC-OSFI-Using-Scenario-Analysis-to-Assess-Climate-Transition-Risk.pdf

of green and sustainable assets. This misallocation of funds is undermining the ability of Canada's capital markets to be fair, efficient, innovative, and competitive and to harness opportunities, while also escalating the level and complexities of risks that threaten the stability of our financial system and economy. Failure to identify climate risks does not mean the risks are not there – it simply delays our ability to manage and respond to those risks and will require more economically disruptive and costly actions in the future.

As risks related to the climate emergency are here and growing, investors need comprehensive understanding of issuers' specific immediate and longer-term risks, how the risks interact and compound, and issuers' responses to those risks. Insufficient information will damage investor confidence in the market and undermine the interests of investors - and the Canadian economy. The potential for harm is particularly serious for seniors, people with disabilities, and other vulnerable people, as well as non-profit organizations, endowments, and foundations, whose financial security depends on their investments.

As Canada's economy shifts in response to changing government action, investor demands, and the physical and transition risks caused by the climate crisis, it is critical that Canada's capital markets evolve to meet the new needs. Vancity shares the view of CSA Chair Louis Morisset that harmonized climate-risk disclosures will benefit both investors and issuers. Vancity also supports the CSA's stated intentions for the Proposed Instrument, including to: improve issuer access to global capital markets by aligning Canadian disclosure standards with expectations of international investors; assist investors in making more informed investment decisions by enhancing climate-related disclosures; facilitate an "equal playing field" for all issuers through comparable and consistent disclosure; and remove the costs associated with navigating and reporting to multiple disclosure frameworks as well as reducing market fragmentation. As the CSA reviews the Proposed Instrument, we recommend that additional steps be taken to ensure the Instrument aligns with the stated intentions.

Vancity recognizes that climate-related risk disclosures are an evolving field, and the process involves learning and growth across the entire financial sector. Requiring full TCFD-aligned disclosures from issuers, phased in over the short-term, will be a significant catalyst for developing climate-risk capacity within Canada and will ensure Canadian issuers and investors benefit from the global movement towards consistent and comparable standards.

Summary of Vancity's recommendations

1. Vancity has adopted the full TCFD framework and supports regulators such as the CSA doing the same. The TCFD's framework has strong international support and is being adopted by key economic partners.

2. Set requirements on the information shared in disclosures to ensure it is relevant, clear, consistent, understandable, and issuer-specific. Boiler plate responses should be prohibited.

3. Require disclosure of Scope 1 and 2 emissions immediately and put in place a path for requiring disclosure of Scope 3 emissions.

4. Require scenario analysis, and for issuers to include information on gaps, limitations, and assumptions made as part of their assessment. Vancity also recommends that the CSA provide a made-in-Canada base-level set of scenarios (including one aligned to Canada's Nationally Determined Contribution targets) and guidance regarding appropriate approaches and methodologies for scenario analysis.

5. Issuers should be required to meet a minimum standard of data tracking, including adjusting risk framework timelines to incorporate the longer-term impacts of climate-related risks.

6. Require issuers to disclose whether they have developed emissions reductions targets, what those targets are, what the methodology/frameworks are behind them, and the issuer's progress towards those targets.

7. Form a committee with other federal and provincial ministries and regulators (Finance Canada, OSFI, BoC, BCFSA, etc.) to liaise on – and where appropriate, align – approaches to regulating climate-risk disclosures, and develop resources, tools, and supports for reporting entities, including facilitating access to relevant data. As part of this committee's work, convene a small but representative working group of stakeholders to advise on and find solutions to common disclosure challenges (e.g., data, scenario analysis, etc.).

Responses

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?

   In line with Vancity's support of the TCFD framework and the commitments we have made as a financial institution, Vancity has published a disclosure report for the last two years. While Vancity is not a reporting issuer within the context of this Proposed Instrument, our experience is comparable to that of many small to mid-sized issuers.

   Vancity was one of the first financial intuitions in North America to include climate-related considerations in its risk management approaches. Climate is one of the ten risk dimensions our organization monitors as part of our Enterprise Risk Management framework, and we revise our metrics and thresholds annually.

   Vancity is working with both internal and external stakeholders to design and test plausible climate-risk related scenarios. Challenges in climate-related scenario analysis include insufficient granularity of data sets, such as region-specific data on climate risks (e.g., detailed flood maps based on predictive modeling for future climate risk), and a lack of industry resources and models. These are both areas that will improve as an increasing number of Canadian organizations are required to disclose.

Vancity has tracked our Scope 1 and 2 emissions for many years, and we are taking steps to understand and address our Scope 3 emissions by calculating and reporting on our financed emissions, including working to set interim reduction targets, and working with and supporting our suppliers to track and reduce their emissions.

While the costs and challenges vary among disclosures related to governance, strategy, risk management, and metrics and targets, each area builds on the others in such a way that they cannot be separated. For instance, metrics and targets give us insights which are then used in risk management and setting strategy.

As with any organization currently releasing a TCFD-aligned disclosure, Vancity is still in the growth and development phase. However, we are proof that this process is achievable for smaller organizations and there is no excuse for delay, particularly amongst larger organizations. Climate-related disclosures are a process that can only be built and matured by doing, so it is critical that issuers begin as soon as possible.

Disclosure of GHG Emissions and Scenario Analysis

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?

   Scenario analysis is a critical component of climate-related risk disclosure, and the Instrument should require it. It is essential that scenario analysis include both physical and transition risks.

   As noted by the TCFD, no organization is immune to the impacts of the climate emergency and the type of exposure and the level and impact of climate-related risks differs by sector, industry, geography, and organization. Risks and opportunities will also compound and interact in unique ways for every issuer, which can be brought to light through scenario analysis.

   Investors recognize that scenario analysis is an emerging field and is not predictive; as the TCFD explains: “scenarios provide a way for organizations to consider how the future might look if certain trends continue or certain conditions are met.” These insights are crucial for investors to be able to understand the financial impacts of climate-related risks for issuers under different climate scenarios, to understand and evaluate issuers’ decisions on managing those risks, and to use that information to inform their own risk management and portfolio diversification. It also provides an informed basis for shareholder engagement with companies and issuers.

   As the Network of Central Banks and Supervisors for Greening the Financial System has observed, the risk of acting early with imperfect information is likely to be less costly than waiting for stronger data and models.

It is also important to require scenario analysis from the start so that issuers begin identifying and building the systems (including data sets, processes, and methodologies) and the skills needed, and then scale them up rapidly.

To mitigate the concerns of issuers and investors that are noted in the consultation document, the CSA should provide a made-in-Canada base-level set of scenarios (including one aligned to Canada's Nationally Determined Contribution targets) and guidance regarding appropriate approaches and methodologies for scenario analysis, as this would improve the consistency and comparability of disclosures. In their recently released report, BoC and OSFI identified variation in analytical tools, capacity, judgment, and assumptions across institutions as a barrier to the comparability of climate risk scenario disclosures, highlighting the need for detailed guidance, tools, and resources from regulators.

The CSA could also take a proportional approach to regulation. The TCFD has identified the financial sector, as well as energy; materials and buildings; transportation; and agriculture, food, and forest products as industries potentially most affected by climate change and the transition to a lower-carbon economy. The CSA could mandate scenario analysis from these organizations immediately, with other sectors phased in within three years. Similarly, scenario analysis could be required for larger issuers immediately, with smaller issuers phased in.

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?

   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?

Issuers should be required to immediately disclose Scope 1 and 2 emissions.

If emissions disclosures are not mandatory there will be no broadly applicable standard, which will create a perverse competitive incentive for issuers to limit emissions disclosures and to underestimate climate-related risks. The CSA should be concerned that a disclosure regime that lacks enough consistency for comparability of disclosures could undermine security administrators' ability to meet their duty to protect the public by inadvertently disincentivizing meaningful integration of climate-risk.

While there are significant challenges for many issuers in calculating their Scope 3 emissions, the failure to include upstream and downstream emissions can lead to perverse outcomes, such as making coal mining appear to be a lower emission investment than solar panel manufacturing (as coal has high Scope 3 emissions while emissions from solar panels are concentrated in Scope 1 and 2 emissions).

The inclusion of Scope 3 emissions also helps investors to understand supply chain risks for the issuer.

Issuers' emissions information will also be critical for financial institutions as they engage in their own disclosures and will enable more consistent understanding of borrowers in the context of financial institutions' climate scenario analysis, as noted in the recent BoC/OSFI climate scenario analysis pilot report.

Once again, CSA could take a proportional approach to regulation. TCFD has identified the financial sector, as well as energy; materials and buildings; transportation; and agriculture, food, and forest products as industries potentially most affected by climate change and the transition to a lower-carbon economy. The CSA could mandate Scope 3 disclosure from these organizations immediately, with other sectors phased in over time. Similarly, Scope 3 emissions could be required for larger issuers immediately, with smaller issuers phased in.

In addition, all issuers should be required to disclose whether they have developed emissions reductions targets, what those targets are and the methodology/framework behind them, and the issuer's progress towards those targets.

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, at minimum, a specific reporting standard such as the GHG Protocol should be mandated.

   It is also worth noting that five sustainability reporting frameworks (Climate Disclosure Project, Climate Disclosure Standards Board, the Global Reporting Initiative, the International Integrated Reporting Council, and the Sustainability Accounting Standards Board) are working together to create an integrated reporting framework that includes financial reporting and sustainability disclosure, as well as climate-related reporting based on TCFD. The proposed framework is expected to be robust and comprehensive and should provide valuable data to ESG analysts.

   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?

Yes, in Vancity's view it is appropriate for all issuers. Allowing only one reporting standard for GHGs removes room for error in multiple standards being used. The GHG Protocol is widely used, with nearly all issuers reporting to the CDP using this framework, and it has been stable for some time.

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?

   Yes, data assurance by a qualified independent third-party that specializes in auditing the specific type of data being reported by the issuer is necessary.

   Vancity favours issuers that demonstrate good due diligence practices, auditing being one of them, as we associate those practices with effective risk management.

   As previously noted, there is also a competitive incentive for issuers to limit emissions disclosures and to underestimate climate-related risks.

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?

   As per the TCFD recommendations, it is strongly preferable that all elements of climate-related financial disclosures be included in annual financial filings to facilitate investors' understanding of climate-related disclosures within the issuer's broader financial context.

   When considering where disclosure information should be located, Vancity recommends that CSA focus on promoting transparency and ensuring disclosure information is clear, comprehensive but concise, and easily accessible, both in form and content.

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?

   VCIM has been a leader in responsible investing for over 20 years, and our climate risk strategy is at the heart of our approach. As a signatory to the Net Zero Asset Managers Initiative, VCIM has committed to aligning our investments with net zero emissions by 2050 or sooner and setting 5-year interim targets beginning with 2030.

   Access to all the information required by the TCFD disclosure framework is critical to investment decisions and managing climate-related risk for investors.

   While it is not an explicit component of the TCFD framework, Vancity recommends that issuers also be required to disclose whether they have developed emissions reductions targets, what those targets are and the methodology/framework behind them, and the issuer's progress towards those targets. Vancity favours issuers with targets that are science-based, aligned to limiting warming to within 1.5 degrees Celsius.

This information is critical for investors to make informed decisions related to the issuer's handling of risk, and for investors to hold issuers accountable.

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?

    The Proposed Instrument should enhance the current level of climate-related disclosures by providing a common standard of reporting. Given the proportion of companies that operate in the energy and materials sector in the Canadian market, an improved common standard is particularly relevant. This will also bring the standard of reporting in Canada closer in line with the standard observed in European markets.

    However, disclosures will remain incomplete and non-comparable without mandatory inclusion of Scope 1, 2, and 3 emissions and scenario analysis.

    Benefits of full climate-risk disclosure include efficient allocation of capital, facilitating a smoother transition to an innovative net zero economy, and better protecting investors from climate risks.

    As regulators around the world move towards TCFD-aligned disclosure, Canada risks lagging behind and having to re-write these regulations within just a few years. By providing the pathway to full TCFD disclosure in this Instrument, the CSA can provide certainty to both issuers and investors. Without a pathway laid out, Canada will fall even further behind as issuers have no incentive to develop the systems necessary for disclosure.

Costs and challenges of disclosures contemplated by the Proposed Instrument

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?

    As very small companies likely do not have the resources the report in accordance with the Proposed Instrument, it would be reasonable to provide certain allowances for these companies. However, it is important the ensure that larger venture issuers which do have adequate resources are not exempt from disclosure simply because of their status as a venture issuer.

    It is also important to consider that as investors increasingly expect climate-risk disclosure, issuers that do not disclose may find themselves at a disadvantage in the market. Providing disclosure-related resources and supports for all issuers would have the benefit of allowing smaller issuers to also provide disclosures and thereby promote competition in the market.

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?

    There are many resources available to support climate-risk disclosures, including an extensive library of guidance materials and resources published by the TCFD. There are also an increasing number of firms that are responding to the needs of organizations that are disclosing climate risks.

    It will be important that the CSA set minimum requirements on the information shared in disclosures to ensure the information is relevant, clear, understandable, and issuer-specific. Specifically, boiler plate responses should be prohibited.

    To address concerns raised by issuers and investors, we recommend that CSA provide a made-in-Canada base-level set of scenarios (including one aligned to Canada's Nationally Determined Contribution targets) and guidance regarding appropriate approaches and methodologies for scenario analysis. In their recently released report, BoC and OSFI identified variation in analytical tools, capacity, judgment, and assumptions across institutions as a barrier to the comparability of climate risk scenario disclosures, highlighting the need for detailed guidance, tools, and resources from regulators.

    Issuers should also be directed to include information on gaps, limitations, and assumptions made as part of their scenario assessment.

    Additionally, issuers should be required to meet a minimum standard of data tracking, including adjusting risk framework timelines to incorporate the longer-term impacts of climate-related risks.

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?

Only climate-related disclosure should be a requirement. The medium by which ESG analysts would consume this information would be best provided in an issuer's annual CSR/ESG/IR report or proxy.

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?

    Yes, the transition provisions provide sufficient time. It has been clear for some time that climate-related disclosure would become a requirement for Canadian issuers. We have also included additional suggestions throughout this submission as to how the CSA could phase in the requirements using a proportional approach.

    What is critical is that the CSA lay out the path and timeline to full emissions and scenario analysis disclosure requirements this year, so that issuers plan accordingly. As the climate emergency unfolds around us, neither issuers nor investors are served by delay.

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?

    Vancity would like to see the following topics be prioritized for the future:

    - Indigenous rights and reconciliation
    - Nature-related risks and biodiversity
    - Environmental justice
    - Requirement for supply chain transparency and auditing
    - SDG impact reporting

Thank you

Thank you for the opportunity to comment on the Proposed Instrument and Proposed Policy. Please reach out if there are any questions regarding Vancity's feedback. We look forward to the CSA's next steps on this important issue.

About Vancity

Vancity is a values-based financial co-operative serving the needs of its more than 550,000 member-owners and their communities, with offices and 55 branches located in Metro Vancouver, the Fraser Valley, Victoria, Squamish and Alert Bay, within the unceded territories of the Coast Salish and Kwakwaka'wakw people. With $30.5 billion in assets plus assets under administration, Vancity is Canada's largest community credit union. Vancity uses its assets to help improve the financial well-being of its members while at the same time helping to develop healthy communities that are socially, economically, and environmentally sustainable.

Vancity supports the Task Force for Climate-Related Financial Disclosures, the United Nations Environment Program's Finance Initiative (UNEP FI), the Global Alliance for Banking on Values (GABV), and the Partnership for Climate Accounting Financials (PCAF). Through UNEP FI, we signed the UN's Principles for Responsible Banking, undertaking concrete and time-bound action and reporting commitments, and have since become North America's representative on the board overseeing the implementation of the Principles. We were also the first Canadian financial institution to join the UN's Collective Commitment to Climate Action, undertaking more stringent action and reporting requirements to limit global warming to well below 2 degrees Celsius - striving for 1.5 degrees Celsius - and advancing the UN's sustainable development goals. Through the GABV, we are signatories to its Climate Change Commitment, committing to align our carbon footprint to the Paris Agreement. And through PCAF, we piloted the application of its methodology to our loans and investments, including residential and commercial mortgages.