Submission to the CANADIAN SECURITIES ADMINISTRATORS

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Canadian Life & Health Insurance Association
Association canadienne des compagnies d'assurances de personnes

EXECUTIVE SUMMARY

- Canadian life and health insurers support the development of Canadian disclosure standards for climate-related risks and opportunities that are aligned with global disclosure standards.

- Given that global standards are coalescing around the Task Force for Climate-Related Financial Disclosure (TCFD) framework, we are pleased the Canadian Securities Administrators (CSA) is taking a similar approach. As this international consensus is implemented in the world's major economies, it is essential that Canada undertake a forward-looking approach to ensure it does not fall behind market expectations and public commitments.

OVERVIEW

The Canadian Life and Health Insurance Association (CLHIA) is pleased to provide its comments to the CSA in response to its consultation on proposed National Instrument 51-107 – *Disclosure of Climate-related Matters*.

$8.2 billion in tax contributions

$1.3 billion in corporate income tax
$1.3 billion in payroll and other taxes
$1.7 billion in premium tax
$3.9 billion in retail sales tax

Investing in Canadians

$1 trillion in total invested assets
91% held in long-term investments

Protecting **29 million Canadians**

26 million with drug, dental and other health benefits
22 million with life insurance averaging $228,000 per insured
12 million with disability income protection

$97 billion in payments to Canadians

$46 billion in annuities
$37 billion in health and disability claims
$14 billion in life insurance policies

Canadian life and health insurers support all governments taking action to reduce, mitigate and adapt to the risks of climate change. As one of Canada's largest long-term investors, Canadian life and health insurers have over $1 trillion in assets invested in Canada. Of this, more than $75 billion is invested in sustainable products and assets. As major investors in the Canadian economy, insurers will play an important part in supporting transition to a lower-emissions future.

CURRENT CLIMATE-RELATED FINANCIAL DISCLOSURE PRACTICES IN THE LIFE AND HEALTH INSURANCE INDUSTRY

CLHIA members support climate-related risk disclosures as they allow all parties (financial services providers and clients/investors) to account for climate-related risks in investment decisions. For example, climate-risk disclosures from asset managers enable insurers to better assess exposure to climate-related risks in their investment portfolios. This is especially important when asset management is outsourced or there are common asset holdings within the industry as a whole.

Today, many of Canada's life and health insurers voluntarily disclose climate-related risk information in a number of documents including:

- Annual and Quarterly Reports, and other regulatory filings
- Task Force on Climate-Related Disclosures (TCFD) Reports
- Sustainability Reports and Environmental, Social and Governance (ESG) Scorecards/Reports
- Corporate Governance Reports
- Emerging Risks Reports
- Net-Zero Plans
- CDP questionnaire (formerly Carbon Disclosure Project)
- Global Real Estate Sustainability Benchmark Survey
- United Nations Environment Program Finance Initiative Annual Disclosure
- United Nations Principles for Sustainable Insurance Annual Disclosure
- Principles for Responsible Investment (UN supported) Annual Disclosure
- Dow Jones Sustainability Indices (DJSI) Corporate Sustainability Assessment (CSA)

This voluntary disclosure helps provide information to investors, analysts and institutional clients and demonstrates the industry's interest in actively engaging in climate-related initiatives. Recently, there has been a trend towards uniformity in voluntary disclosure, coalescing around the recommendations of the TCFD.

TCFD – AN EMERGING GLOBAL STANDARD FOR CLIMATE-RELATED FINANCIAL DISCLOSURE

Climate-related disclosures has emerged as a key aspect of corporate strategy for many organizations in the financial services and insurance sectors.

Recently, international organizations, governments and regulatory bodies have accelerated the pace of change through consultations, new guidance and/or regulation. Canadian life and health insurers are participating in many of these processes and initiatives, including the recently completed Bank of Canada-Office of the Superintendent of Financial Institutions (OSFI) scenario analysis pilot project and the Sustainable Finance Action Council.

There has been convergence both within Canada and internationally towards TCFD recommendations as the framework for mandatory disclosure. For example, the governments of New Zealand and the United Kingdom have passed legislation making TCFD-aligned climate-related risk disclosure mandatory for most firms on phased-in schedules.

We are encouraged that the National Instrument (NI 51-107) proposed by the CSA aligns with the TCFD framework. This will help bring about international consistency in climate-risk disclosure.

GENERAL COMMENTS ON THE CSA'S PROPOSED NATIONAL INSTRUMENT 51-107 – *DISCLOSURE OF CLIMATE-RELATED MATTERS*

Scope 1, 2, and 3 emissions

Canadian life and health insurers are supportive of a consistent disclosure standard across the Canadian economy, and we support the instrument's overall alignment with TCFD.

More information about climate-related risks and opportunities will enable us and other investors to ensure that they are properly accounted for in investment decisions. For this reason, we support mandatory disclosure of Scope 1 and Scope 2 emissions with Scope 3 emissions on a comply-or-explain basis. This is a practical approach that would ensure Canada remains in step with increasingly standard global practices. Access to data and improved methodologies for Scope 3 emission disclosure will advance in future, but at this time we support permitting the disclosure of Scope 3 emissions or the issuer's reasons for not disclosing same.

Scenario analysis

Ensuring the disclosure requirements align as closely as possible to TCFD will avoid the need for Canadian issuers to develop additional disclosures to supplement Canadian requirements and meet the expectations of international investors and regulators. However, we currently support the deferral of scenario analysis as a reporting requirement. The recently concluded Bank of Canada-OSFI climate scenarios pilot demonstrates that there are still many challenges associated with this practice. In addition, the Bank of Canada and OSFI will continue to refine scenario analysis for financial institutions. For this reason, we request that the CSA revisit scenario analysis as a reporting requirement once OSFI has developed standardized scenario analysis exercises.

Other items

We also suggest that:

- It is too soon for GHG emissions assurance to be mandated for issuers, as this additional step may discourage some companies from disclosing their emissions;
- We support the use of the GHG Protocol as a best practice, but do not agree that it be mandated. This will allow issuers the flexibility to adopt a new, preferred standard

should one arise; and
- We support the proposal of issuers being permitted to disclose their GHG emissions by reference.

The CSA should not wait to begin implementation of its climate-related disclosure until newly formed international standards setting bodies like the International Sustainability Standards Board (ISSB) release climate-related disclosure standards. With that being said, the CSA should ensure that its processes and priorities are formulated in such a way that they can easily be updated to converge and align with emerging international disclosure standards, including the ISSB's forthcoming climate-related reporting standard. A nimble approach will ensure Canada remains globally competitive as we transition to a lower carbon economy.

It is our view that the CSA's proposal is a first step on the journey towards comprehensive disclosure of climate-related financial information. As the practice evolves and access to data improves, disclosure requirements will be able to reflect a better understanding of how an issuer discloses climate-related financial information (including metrics and targets). Investor expectations of climate-related disclosures from issuers is quickly expanding as are requirements imposed by prudential regulators both in Canada and internationally.

This consultation assumes that the new National Instrument (NI 51-107) becomes effective on December 31, 2022, and the proposed disclosures would not be mandatory until at least 2024. However, it is possible that the Canadian requirements will need to be reviewed periodically due to domestic and international developments. We request that any review of the National Instrument include engagement with stakeholders.

We also think it would be helpful for the CSA to create a portal to highlight and share best practices for meeting disclosure requirements, similar to what we've seen in other jurisdictions, in an effort to accelerate and standardize reporting and best practices.

Given the complexity of reporting requirements, we would encourage the CSA to develop tools to assist small- and medium- sized issuers in providing high quality, consistent disclosures in a cost-effective way, particularly in areas such as emissions reporting, and to introduce safe harbour provisions. For smaller issuers, this support could enable them to meet the proposed obligations.

CONCLUSION

Climate change is an urgent issue. We support the work of the CSA and the proposed goals of this instrument, which will provide investors with access to consistent metrics and disclosures to effectively account for climate change and support Canada's efforts to reach a net-zero economy by 2050.

The life and health insurance industry appreciates the opportunity to engage with the Canadian Securities Administrators on the proposed National Instrument 51-107—*Disclosure of Climate-related Matters*.

Should you have any questions or wish to discuss further, please don't hesitate to contact Susan Murray, Vice-President, Government Relations and Policy at **smurray@clhia.ca** or 613-691-6002.

79 Wellington St. West, Suite 2300
P.O. Box 99, TD South Tower
Toronto, Ontario M5K 1G8
416.777.2221
info@clhia.ca