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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
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Via email

Dear Sir/Madam:

Re: Proposed National Instrument 51-107 Disclosure of Climate-related Matters

The Investment Industry Association of Canada (the "IIAC" or "Association") appreciates the opportunity to comment on the Proposals.

Summary: The IIAC supports the Proposed National Instrument 51-107 Disclosure of Climate-related Matters. This national instrument will provide more clarity to investors by aligning Canadian disclosure standards with international standards and assist investors in making more informed investment decisions. This will be achieved by enhancing climate-related disclosures and mandating a disclosure regime that aligns with the Task Force on Climate-Related Financial Disclosures (TCFD) recommendations.

Recommendations: Some key recommendations from the IIAC include the following:

- In the near term we do not believe that it makes sense or is practical to make scenario analysis a mandatory disclosure item as scenarios are complicated in most instances. A comply or explain approach is recommended.
- It is important to recognize that not all issuers will have the resources and /or expertise to undertake this heightened level of disclosure, especially as it relates to scenario analysis. The National Instrument could vary requirements for reporting on climate scenario analysis for firms depending on risks and size. Smaller firms that could be given the opportunity to use qualitative or narrative scenarios. A phased implementation timeline could also be implemented to address this.
- The CSA should have a default requirement of having disclosures in line with the GHG protocol and industry standard specific items derived from the GHG protocol.
- We believe that in an effort to have the closest alignment with the TCFD recommendations, CSA should have a "comply or explain" requirement for scenario analysis.
- It is recommended that assurance of Scope 1 and 2 emissions be required for companies in carbon-related sectors (as defined by the TCFD). Auditing of Scope 3 emissions, while encouraged, should not be required at this stage.
- Additional ESG issues should be considered in the medium-term, based on sector materiality. This may include human rights, diversity and inclusion, biodiversity and health and safety.

These and other recommendations are detailed below.

The Association supports CSA efforts to clarify and mandate a disclosure regime that makes many Task Force on Climate-Related Financial Disclosures (TCFD) recommendations a regulatory requirement.

The CSA's Proposed National Instrument aligns with the global push to improve the comprehensiveness, uniformity, and comparability of climate-related disclosures. This includes incorporating many elements of the TCFD recommendations.

By mandating this disclosure regime and making many TCFD recommendations a regulatory requirement can lead to increased transparency and improved decision-making.

CSA QUESTIONS

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?

Comments:
Some member firms have been publishing TCFD aligned disclosures for up to 5 years. Over the years these disclosures have been broadened and enhanced to provide greater detail. There have been challenges with meeting expectations such as data quality and availability, consistent methodologies and comparable metrics within and across industries. The approach has evolved and become more sophisticated over time. The disclosure has improved the focus of organizational decision making on climate-related issues.

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?

Comments:
A number of firms have been disclosing Scope 1 and 2 GHG emissions and select Scope 3 GHG emissions in line with the GHG Protocol for over a decade. Receiving third-party assurance of Scope 1 and 2 emissions is still relatively limited. Methodologies for measuring Scope 3 emissions are still nascent and developing, and limited experience within auditing firms on conducting Scope 3 emissions assurance. As such, while recommended, assurance of Scope 3 emissions should not be required at this time.

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?

Comments:
There are member firms that currently perform climate scenario analysis and the results of this analysis have been disclosed in their public reports including TCFD Reports, Annual reports and ESG performance reports. Scenario analysis is viewed as challenging by many due to the current lack of standardization of methodologies and issues related to data quality and availability. This is an area that continues to develop.

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?

Comments:
We believe that in an effort to have the closest alignment with the TCFD recommendations, CSA should have a “comply or explain” requirement for scenario analysis. In the near term we do not

believe that it is practical to make this a mandatory disclosure item. Scenarios are complicated in most instances.

However, scenario analysis should be encouraged as understanding the potential implications of climate-related risks and opportunities under different future pathways is an important input to business strategy and financial 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?
- 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?

Comments:
The TCFD recommendations state that firms should report scope 1 and scope 2 emissions irrespective of materiality. Among our IIAC members, scope 1 and 2 emissions are disclosed together as they are within an issuer's control. There is also the view that requirements related to Scope 1 and 2 should be the same.

Scope 3 emissions, related to upstream and downstream emissions, should be subject to a separate set of requirements and should be encouraged, based on materiality, but not be mandatory at this time.

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?
- 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?

Comments:
Consistency and comparability of GHG disclosures is key, and as such it is important that they be made in line with established standards and best practice. The GHG Protocol is an established standard and should be applied across industries. In some instances (e.g. PCAF for the financial sector) there may be industry standards that are based off of the GHG Protocol. These should be accepted as long as they can demonstrate that they are in line with the GHG Protocol.

The CSA should have a default requirement of having disclosures in line with widely adopted standards such as the GHG Protocol and industry standard specific items derived from the GHG Protocol, or the ISO 14064 standard.

Sector materiality of climate-related issues is important for disclosures and should be considered SASB standards can be used as a resource for determining materiality. Standards for ESG and sustainability related disclosures continue to evolve, and CSA requirements should aim to meet evolving international best practice. The ISSB will be developing and implementing standards in the near-term, and CSA should seek to align with this.

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?

Comments:
It is recommended that assurance of Scope 1 and 2 emissions be required for companies in carbon-related sectors (as defined by the TCFD). Auditing of Scope 3 emissions, while encouraged, should not be required at this stage.

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?

Comments:
On a principled basis, it would make sense for an issuer to be allowed to incorporate GHG disclosures by reference to another document as part of a broader climate report or sustainability report. However, this could expand the scope of the applicability of the Proposed Instrument to impact these referenced documents, which may give rise to concern.

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?

Comments:
Through our discussions with issuers and investors, we know that a common concern is consistent and comparable ESG data. The Proposed Instrument could improve the quality and consistency of climate disclosures, which would be helpful for investment and voting decisions. From both the investors and issuers' perspective, there is a pressing need for issuers to report some uniform

standard-setting disclosures as there is a risk of too many different bodies providing different standards to follow.

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?

Comments:
The Proposed Instrument would establish a set of standards for climate-related financial disclosures in Canada. This would encourage issuers who have not yet made such disclosures to begin and would help standardize reporting across issuers who are currently doing so. Investors need consistent, comparable and high-quality climate-related data to make decisions. This data will also be helpful to other market participants for strategy and risk management purposes.

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?

Comments:
For firms that have yet to make TCFD-aligned climate-related disclosures, the Proposed Instrument can lead to a number of costs including collecting quality data, hiring ESG trained professionals to monitor and report, getting assurance, hiring external consultants or legal counsel, and reporting and responding to shareholders. For firms that have already made these initial investments, there are costs associated with ongoing disclosure and improving processes.

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?

Comments:
A number of firms have indicated that the metrics and targets are considered the more challenging of the four core TCFD recommendations to implement due to the data costs and interpretation challenges. The costs and challenges are most acute with the metrics and targets section because very specific processes must be implemented to generate quantitative outputs that are consistent, comparable, and reliable.

Scenario analysis within the strategy recommendations is also challenging due to lack of standardization of methodology.

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?

We agree in principle that there should be more consideration for accommodations for venture issuers given their scarcer resources. A 'disclose or explain' approach for venture issuers and potentially others on a case-by-case basis should be considered as should a phased approach for implementation of the requirements based on a firms size and resources maybe appropriate and is what has been implemented in other jurisdictions such as the UK.

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?
Comments:
The TCFD should be the foundation for the CSA as it is the global standard, and there should be a regular review cycle to ensure that the CSA continues to be align with international best efforts (such as what is being developed by the IFRS ISSB). SASB is a useful tool for establishing sector materiality of climate and ESG issues and should be reviewed and considered from that perspective.

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?

We have no comment at this time.

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?

Comments:
If this information is required to be included in the prospectus, it should be given safe harbour.

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?

Comments:
A phase-in period longer than one year would deprive the market from useful climate information. The one-year transition period for non-venture issuers with the first filings due in 2024 for fiscal 2023 is viewed as reasonable for larger issuers but could be problematic for medium or smaller issuers who do not have dedicated resources in this area. Given that climate data for venture issuers would be helpful for investors and other market participants, the CSA should nonetheless support and encourage issuers to make climate disclosures ahead of the mandatory compliance date. A more 'targeted' approach for venture issuers in sectors more directly tied to GHG emissions, may be considered so as to not stifle innovation and entrepreneurship in Canada's less carbon intensive sectors.

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?

Comments:
Broader sustainability topics for future include human rights, diversity and inclusion, biodiversity, health, and safety.

Thank you for considering our comments. If you have any questions, please do not hesitate to contact me.

Yours sincerely,

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