February 16, 2022

The Secretary
Ontario Securities Commission
20 Queen Street West
22nd Floor, Box 55 Toronto
Ontario M5H 3S8

Submitted via email to comment@osc.gov.on.ca

Dear Ms. Grace Knakowski,

Consultation on Climate-related disclosures update and CSA Notice ("the Request for Comment")

MSCI[1] welcomes the opportunity to respond to the Request for Comment. As a leading provider of climate risk data and analytics to the global investment community, MSCI has collected climate and environmental, social and governance (ESG) related disclosures from thousands ofcompanies globally for over two decades and developed tools to assist investors in their analysis of climate and ESG risks and opportunities to their portfolios.

Climate change is the single greatest challenge humankind has faced and addressing its impacts will require the largest reconstruction of the global economy since the Industrial Revolution. A convergence of ESG factors will impact the pricing of financial assets and precipitate a large-scale reallocation of capital. The climate crisis is foremost among those factors, creating economic and investment risks and opportunities on an unprecedented scale.

Research on how markets have been pricing externalities related to climate change is nascent, due in part to a short history of consistent data. In our research paper, *The Foundations of Climate Investing: How Equity Markets Have Priced Climate Transition Risks*[2], we analyzed data over a seven-year study period and found that in developed markets outside the U.S., more carbon-efficient companies experienced stronger stock price performance. We therefore expect investors to increase the depth of their analysis on how companies are adapting to address climate risks and opportunities, which makes timely, consistent and comparable climate disclosure by companies essential.

Our primary comments relate to the following core sections in the Request for Comment:

1. Align proposed instrument with latest TCFD guidance on metrics, targets and transition plans

The proposed instrument and disclosure requirement therein, leans on the Taskforce for Climate-related Financial Disclosures (TCFD) recommendations of 2017, which were updated in October 2021 through its report on Implementing the Recommendations of the Task Force on Climate-related

[1] MSCI ESG Ratings, research and data are produced by MSCI ESG Research LLC, a subsidiary of MSCI Inc.
[2] MSCI. 2021. Foundations of Climate Investing

Financial Disclosures ("Implementing Guidance")[3]. The update brings in a forward-looking lens to climate-related disclosure. On the back of fast-growing corporate commitments to a net-zero transition, investors need decision-useful information on issuers' transition plans. This requires metrics and targets to enable tracking of progress, which would also support shareholder engagement. We encourage the CSA to reference this latest update, with a view to allow investors an informed judgement on an issuers net-zero journey.

2. Mandate disclosure of the results of the scenario analysis.
We are of the view that not mandating disclosure of scenario analysis carried out by the issuer may potentially lead to an issuer failing to carry out a scenario analysis. Not mandating disclosure of the results of a scenario analysis is also a departure from the recommendations by the TCFD.

3. Climate-related disclosures should include quantitative disclosures, based on defined metrics of measurement.
Climate-related disclosures should be consistent, globally comparable and timely to allow investors to better assess the nature, size and timing of the investment risks they face related to climate change. The most critical core data disclosures include companies' complete carbon emissions footprint (Scope 1, 2 and 3), top 10 facility locations and top 10 suppliers.

While the Request for Comment covers a range of issues, we comment only on those matters where we believe MSCI's expertise and experience are most relevant. We have prepared a detailed response to the questions in the Request for Comment in Annex 1. We welcome a discussion with the Commission to provide additional granular information on our climate and ESG products and services as well as on the data we use, and the information sourcing challenges we face, in modelling climate and ESG risk.

Please do not hesitate to contact us to discuss our submission.

Yours sincerely,

/s

Simone Ruiz-Vergote
Executive Director, ESG & Climate Research
MSCI ESG Research LLC

[3] Task Force on Climate-related Financial Disclosures Implementing the Recommendations of the Task Force on Climate-related Financial Disclosures - October 2021

Annex 1: Detailed 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?

No comment.

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?

No comment.

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?

No comment.

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 well-established method for developing input to strategic plans to enhance plan flexibility or resiliency to a range of future states. The TCFD has identified that the most significant effects of climate change are likely to emerge over the medium to long term, but the precise timing and magnitude is uncertain. Climate scenario analysis is critical to help companies identifying how climate-related risks and opportunities may evolve and impact their business.[4] It is a starting point for understanding the magnitude and transmission channels of climate-related risks. This allows the definition of a risk mitigation strategy and/or the building of new business on the back of opportunities. MSCI's research blog post on Climate-change Scenarios shows how exposed different industry groups are to climate change and the huge potential variation between industry groups. Yet individual companies may be less exposed or better prepared than their sector average. For investors, this may be critical information as they construct and manage their portfolios.[5]

[4] Task Force on Climate-related Financial Disclosures Guidance on Scenario Analysis for Non-Financial Companies

[5] Stress Testing Climate-Change Scenarios

In 2020, the TCFD issued guidance on scenario analysis for non-financial companies and built on this in their updated Implementing Guidance published in October 2021. The Implementing Guidance superseded the 2017 Guidance. The TCFD recommends that all sectors should describe how resilient their strategies are to climate-related risks and opportunities, and use forward-looking data (e.g. based on scenario analysis). The TCFD highlights in its report that forward-looking reporting is most useful when presented along with information on the designated time horizon, methodologies, and scenarios used, as well as key assumptions.

Financial supervisors and regulators globally have acknowledged the importance of scenario analysis for climate-related risks as a well-established tool within the risk management framework:

- In the UK, following consultation feedback illustrating strong support for companies to carry out scenario analysis, the UK's Department for Business, Energy and Industrial Strategy has legislated qualitative disclosure for scenario analysis in the non-financial and sustainability information statement by companies on a mandatory basis.[6]
- In the U.S., the New York Department of Financial Services (NYDFS) has introduced an expectation to conduct scenario analysis as part of its published guidance for insurers to manage the financial risks from climate change.[7]
- In Canada, the results of the Bank of Canada-Office of the Superintendent of Financial Institutions (OSFI) climate scenario analysis pilot exercise were published in January 2022.[8]
- Following OSFI's joint exercise with Bank of Canada , the OSFI has committed to build on this exercise with more standardized climate scenario analysis and stress testing exercises for Federally Regulated Financial Institutions to assess the impacts of both physical and transition risks.[9]

We are of the view that the TCFD guidance documents on scenario analysis for non-financial companies should be considered as a guiding force for issuers to disclose the results of their climate-related 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?

"Comply or explain" frameworks were developed to support policies or structures in corporate governance and other areas that were equally susceptible to successful compliance in a variety of different ways. "Comply or explain" was intended to address concerns that such standards were not overly prescriptive, stifled creative expression, or imposed unnecessarily strict

[6] Mandatory climate-related financial disclosures by publicly quoted companies, large private companies and LLPs: government response
The Companies (Strategic Report) (Climate-related Financial Disclosure) Regulations 2022

[7] Guidance for New York Domestic Insurers on Managing the Financial Risks from Climate Change

[8] Using Scenario Analysis to Assess Climate Transition Risk

[9] Building Federally Regulated Financial Institution Awareness and Capability to Manage Climate-Related Financial Risks

limitations on practices where "one size does not fit all". In the appropriate context, such frameworks can, and often do, work well in the spirit of letting the market decide. Given the increasing relevance to compare and contrast companies' progress in responding to climate issues, a "Comply or explain" framework for climate disclosures may frustrate this objective, where comparability and quantitative reporting are of paramount importance. This is especially relevant for the core and industry-specific disclosures that focus on carbon emissions, and on location-based or fuel-mix allocations.

• 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?

In the 2021 Implementing Guidance, the TCFD recommends the disclosure of core metrics (independent of materiality considerations), these include Scope 1 and 2 GHG emissions and Scope 3 where it is material. We support that Scope 3 emissions should also be mandated. For more details, please see our response to Question 9.

• 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?

No comment.

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?

The GHG Protocol[10] has become one of the leading and most widely used international standards to measure and report greenhouse gas emissions, referenced by many standard setters and industry initiatives. In practice, we observe significant variations in reporting GHG emissions by issuers, which makes it very challenging to collect, aggregate or compare this data for investors' consumption. It may be that the same issuer report parts of its GHG footprint in one standard and another one (usually stemming from a different jurisdiction) in another standard. Even where standards are comparable, this requires manual compilations and may not always be feasible.

We see the most useful approach as referencing the GHG protocol as a key standard and, thereby, facilitating the decision usefulness of related disclosures.

The Implementing Guidance suggests that the GHG emissions should be calculated in line with the GHG Protocol methodology to allow for aggregation and comparability across organizations and jurisdictions. Further, the TCFD also acknowledges that though challenges remain, the GHG Protocol methodology is the most widely recognized and used international standard for calculating GHG emissions. Having said that, the TCFD also provides the liberty to organizations to use national reporting methodologies provided they are consistent with the GHG Protocol methodology.[11]

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?

Third party verification and/or assurance for issuers' climate and ESG data disclosure is currently extremely rare.

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?

No comment

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?

There are three tiers of climate-related disclosures that MSCI views as decision-useful for investors:

[10] Greenhouse gas reporting standards for calculating and reporting GHG emissions by companies and organizations as developed by the World Resources Institute and World Business Council for Sustainable Development

[11] Task Force on Climate-related Financial Disclosures Implementing the Recommendations of the Task Force on Climate-related Financial Disclosures (pg 61 and reference note 117)

(i) Core data

The most critical core areas of disclosure are companies' complete carbon emissions footprint, their facility locations and supply chain. Today, there is tremendous inconsistency in disclosure related to these data points.

Additionally, investors must have access to this core set of climate data from both public and private companies in order to have a complete understanding of the climate- related risks and opportunities in their total portfolio. Allocations to private assets are increasing and without this data, investors are unable to evaluate their total portfolio. Therefore, we are of the view that mandatory disclosure of this core data set should be required from a broad range of companies beyond publicly traded companies within an appropriate threshold for private companies set by policymakers.

- **Carbon emissions** - Disclosure of Scope 1 and 2 emissions across all operations globally, plus Scope 3 emissions across all categories according to the GHG Protocol, would significantly improve the market's ability to model and assess a portfolio's financial exposure to potential changes in climate policy, to technology displacement and to changes in market demand. Currently, as illustrated in Figure 11 of the report of the Portfolio Alignment team, many companies have not reported their carbon emissions, with the gap being particularly acute for value-chain emissions (Scope 3).[12] As illustrated in Figure 13 of the report of the Portfolio Alignment Team, even the small set of companies that have disclosed Scope 3 emissions do so only for select categories of their own choosing, which prevents benchmarking within, and between, industry peer groups.[13] A minimum standard of reporting across a broad range of companies would enable a base comparison across portfolios containing companies in different sectors.
- **Facility locations** – Disclosure of the precise location of the ten largest facilities (by asset value or production volume) would assist the market in assessing the extent to which a company's operations are exposed to the range of potential weather and physical hazards. The market is increasingly aware of the risks from changes in weather and climate conditions that can impact future asset value. For example, within MSCI's aggregated Climate Value-at-Risk model (as further described in this response section below) is a physical risk model that aims to estimate the asset value gain/loss from changes in extreme heat, extreme cold, precipitation, wind, cyclones, coastal flooding, fluvial flooding, low river flow (impacting utilities) and wildfire. While climate risk modelers and data providers can access a range of academic models as inputs to project these weather-related changes, the accuracy of the resulting risk assessments depends on having granular geographic information on companies' main business operations. The disclosure of facility locations would allow investors to gain a more consistent assessment of risks that their portfolio companies may face, compared to disclosure of companies' overall assessments of their physical risks, as each company could deploy different definitions of scope or model assumptions, which prevents comparability across companies absent facility location data.

[12] Report of the Portfolio Alignment Team – Measuring Portfolio Alignment | Technical Considerations (Figure 11), 2021.

[13] Report of the Portfolio Alignment Team – Measuring Portfolio Alignment | Technical Considerations (Figure 13), 2021.

- **Supply chains** - Disclosure of a company's ten largest suppliers would be helpful for the market in understanding the risks posed by climate change to a company's supply chain. The systemic nature of climate change means that companies may be vulnerable to risks far up and down the value chain where, for example, extreme weather could constrain the supply of critical inputs and significantly disrupt operations.

(ii) Industry-specific data

Climate risk exposure, physical and/or transition, varies by sector and disclosure of this data by industry would be helpful in differentiating between companies within a sector whose businesses may vary in exposure to climate risks.

The TCFD provides supplemental guidance for financial and non-financial sectors, accompanied by detailed "example metrics" for disclosure categorized by relevance to financial reporting aspects, i.e., revenues, expenditures, capital, and assets, if applicable. The example metrics detail the unit of measure to be reported. This level of specificity is critical for furthering standardization in quantitative disclosure.

We further note that investors have increased needs for granular information to distinguish between the types of products/services of companies in select sectors. The granular data is important for assessing exposure to high-intensity operations that could become stranded assets (e.g., types of fossil fuel reserves, fuel-mix in power generation) and for gauging opportunities to provide 'solutions' to a transitioning economy (e.g., types of alternative energy, clean technologies). At present, the market must estimate companies' exposure to these high-intensity and "green" activities based on an analysis of companies' financial reporting on their revenues, assets and capital expenditures as there is no direct disclosure on the production or revenue segments of interest. This lack of direct disclosure makes it necessary to rely on revenue estimation which, depending on the level of available disclosure, could lead to over- or under-estimation. Standardized reporting requirements, including specification of the unit of measure, for certain types of high intensity and "green" products and services would significantly improve the availability and quality of information for investors seeking to manage their exposures to high-intensity and "green" products/services.

(iii) Forward-looking metrics

In its Guidance on Metrics, Targets and Transition Plans[14], the TCFD has established that managing climate-related risks through a forward-looking approach requires:

i. the development of scenarios that illuminate the materiality of climate-related physical and/or transition risks;
ii. the translation of such scenarios into relevant corporate metrics for a financial institution (or supervisor); and
iii. the interpretation of such results in terms of immediate responses (e.g., changes in portfolio mix or need for new climate-related prudential regulation).

Significant developments in climate risk data analytics and modeling have enabled companies to report according to the TCFD guidance. The TCFD also contributed to advance the development

[14] Guidance on Metrics, Targets, Transition Plans, TCFD, 2021.

of additional "forward-looking metrics" such as the use of an "Implied Temperature Rise" metric associated with companies' future emissions.

While companies and investors can choose from an increasingly sophisticated range of such forward-looking metrics for reporting on their potential risks to climate change, transparency is only likely to improve when disclosures are accompanied by a clear explanation of the assumptions, inputs and analytical choices behind the models and pathways used. Transparency around key parameters, assumptions, and analytical choices will help to support comparability of results between different scenarios used by an organization and across organizations. This supports the evaluation, by analysts and investors, of the robustness of organizations' strategies across a range of plausible impacts, thereby supporting better risk and capital allocation decisions.[15]

An important input into forward-looking metrics is the forward emissions trajectory of companies, which should include a consideration of decarbonization commitments that companies have made. As of January 2021, approximately 35% of the MSCI ACWI IMI Index constituents have set some type of carbon reduction target to be achieved between 2021 and 2100.[16] However, it is difficult to compare the scope and ambition of these decarbonization targets, as companies report them in disparate ways. Standardized disclosure of companies' decarbonization targets would greatly facilitate an assessment of their future emissions pathways and their alignment with climate scenarios. MSCI has developed a framework to facilitate a quantitative comparison across the decarbonization targets set by companies, which contains examples of the types of standardized metrics that the market requires to project the emissions trajectory of companies.

There are a range of models currently available in the market to assist investors with their forward-looking assessments. Two examples of such models are:

i. **The MSCI Climate Value-At-Risk model**, which provides forward looking and return-based valuation assessments to measure the potential impact of climate change on company valuations. The tool provides insights into the potential stressed market valuation of investment portfolios and downside risks, translating climate- related costs into potential valuation impacts. The MSCI Climate Value-at-Risk model has three main underlying components which investors use separately or in aggregate:
    - **Policy transition Value-at-Risk:** This component aggregates future policy costs based on an end of the century time horizon. By overlaying climate policy outlooks and future emission reduction price estimates onto company data, the model provides insights into how current and forthcoming climate policies could affect companies.
    - **Innovation transition opportunities:** This component is based on company specific data on the patents each company holds related to low-carbon technologies, providing insights into how companies' strategic investments could affect their future competitive positioning in a low carbon economy.

[15] Technical Supplement - The Use of Scenario Analysis in Disclosure of Climate-Related Risks and Opportunities

[16] MSCI. 2021. Breaking Down Corporate Net-Zero Climate Target (msci.com). This ACWI IMI index includes approximately 9,000 public companies across 50 developed and emerging markets and has a market value of over USD 70 trillion.

- **Physical risks and opportunities:** This component estimates the impact and financial risk relating to several extreme weather hazards, such as extreme heat and cold and flood risk.

ii. **MSCI's Implied Temperature Rise (ITR)**. MSCI's earlier Warming Potential (WP) model computed the contribution of a company's activities towards climate change, delivering a temperature value that signified the future temperature with which a company's activities are currently aligned. MSCI later revamped its WP model to make it almost entirely aligned with the PAT recommendations as a way to support methodology convergence. Our model allocates an emissions budget to companies under a 2°C warming scenario. Future emissions trajectories are then projected based on publicly disclosed targets by companies. Emissions over/undershoot is benchmarked against a 2°C scenario, and ultimately converted into a temperature measure.

Investors use these models to produce forward-looking metrics on individual portfolio companies as well as in aggregate to determine the Climate Value-at-Risk and ITR of an entire portfolio or fund.

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?

We welcome that the disclosure requirements are broadly in line with the core TCFD recommendations. However, as suggested in our response to Question 5, complete carbon emissions footprint (Scope 1, Scope 2 and Scope 3) by an issuer would lead to a more comprehensive picture of climate related risks and opportunities in their businesses. We foresee the following benefits due to enhanced disclosure requirements.

1. Investors would benefit from **consistent, comparable and timely mandatory disclosures** in order to better assess the nature, size and timing of the investment risks they face related to climate change.
2. **The most critical core data disclosures include companies' complete carbon emissions footprint, facility locations and supply chain**, and consistent reporting of this data would facilitate comparison by investors. A minimum standard of reporting would enable a base comparison across portfolios containing companies in different sectors. Investors invest in both public and private companies and the most beneficial disclosure to the market would cast the minimum core disclosure net wider than publicly listed companies.
3. **Disclosure standards in line with international standards will gain wider acceptance by global investors.** Many investment managers based in Canada have clients and investments located outside Canada. Increasingly, those markets have established extensive reporting requirements for investment managers and funds, which ultimately necessitates that their portfolio companies, regardless of jurisdiction, make disclosures. To facilitate this reporting, our clients typically require a standardized set of metrics to report on their portfolios. As such, the availability of consistent and globally comparable data is of paramount importance to help managers and investors meet these reporting obligations.

4. **Aligning disclosure with the TCFD guidance** is a welcome step. With the inauguration of the International Sustainability Standards Board (ISSB) and forthcoming disclosure prototypes, a baseline reporting by corporates will lead to international convergence of non-financial disclosure requirements.

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?

No comment.

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?

No comment.

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?

No comment.

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?

No comment.

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?

No comment.

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?

No comment.

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?
• 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? Future ESG considerations

No comment.

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 support the efforts of the International Sustainability Standards Board to propose standardization of ESG disclosures that aim to capture issues that could be material to companies' enterprise value. The ISSB has initiated the standardization of disclosures, with the release of climate-related disclosures prototype with the guidance of the TCFD.[17] Also, the framework set forth by the TCFD has already significantly advanced the convergence of climate-related reporting to be more robust and consistent.[18]

We view climate risks and disclosures as one critical part in addition to a broader range of ESG risks and opportunities. Efforts to standardize disclosure of climate-related topics alone would

[17] Climate Related Disclosures-Prototype
[18] TCFD-2021 Status Report

leave large gaps in the information set that investors require to navigate a growing set of ESG issues that are potentially financially material.

We support the development of climate disclosure standards that are well coordinated with, and informed by, standards that will be equally appropriate and effective when applied to ESG. Our categorization of climate disclosures into tiers as set out in our response to Question 9 above can equally apply to ESG more broadly.

More specifically, there is only a small set of core metrics that qualifying companies should disclose to set a baseline for comparisons across companies. In addition to the location of companies' Top 10 largest facilities and Top 10 suppliers, which are equally useful information for identifying a range of ESG risks as for identifying climate risk, the set of core ESG metrics beyond emissions data would be most useful if it includes governance-related matters (many of which are already mandated for disclosure in proxy filings) as well as human capital matters. Unlike many other ESG topics, the characteristics of a company's human capital represent an information gap which is difficult for investors to fill with alternative sources of data or through modeling techniques.

Much of the disclosure required to help the market assess companies' financially material risks and opportunities should be industry-specific. MSCI has published research analyzing the data history of MSCI's ESG Ratings, which constitutes the longest-running ESG dataset in the investment industry that takes an industry-specific approach to capturing financially material ESG issues. Our research has demonstrated historical linkages between industry-specific material ESG issues and their ability to capture financial value, including profitability, idiosyncratic and systematic risks.[19] It is important to note that, based on our experience, the set of material ESG issues that are relevant for each industry would be relatively small. However, the set of relevant ESG issues by industry should be updated regularly as companies operate in a dynamic world in which new or different ESG risks become financially material.

[19] See for example:
Giese, G., Nagy, Z., and Lee, L.E. 2021. "Deconstructing ESG Ratings Performance: Risk and Return for E, S, and G by Time Horizon, Sector, and Weighting." *Journal of Portfolio Management*, 47:3.
Lee, L.-E., Giese, Gi., and Nagy, Z. 2020. "Combining E, S, and G Scores: An Exploration of Alternative Weighting Schemes." *Journal of Impact & ESG Investing,* 1:1. https://www.msci.com/documents/10199/cdcc4b96-2967-1401-09a1-c06bad140c42
Giese, G., Lee, L.-E., Melas, D., Nagy, Z., and Nishikawa, L. 2019. "Foundations of ESG Investing: How ESG Affects Equity Valuation, Risk, and Performance." *Journal of Portfolio Management,* 45:5. https://www.msci.com/www/research-paper/foundations-of- esg-investing/0795306949