Clean Energy Canada Submission to the Canadian Securities Administrators in response to “Proposed National Instrument 51-107 *Disclosure of Climate-related Matters*”

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Introduction

Clean Energy Canada is an independent program of the Morris J. Wosk Centre for Dialogue at Simon Fraser University. We work to accelerate Canada’s transition to a clean and renewable energy system.

Clean Energy Canada welcomes the opportunity to submit comments to the Canadian Securities Administrators (CSA) as part of the consultation on proposed National Instrument 51-107 *Disclosure of Climate-related Matters.*[1] We believe the proposal is a positive and long-overdue step that will improve transparency of Canadian companies’ risks and impacts related to climate change, and bring more consistency to the disclosures used by investors, regulators, and others.

This is a fast-developing field, and the CSA and provincial securities regulators will need to act quickly to implement the proposed requirements. Since the publication of the discussion paper, several developments have highlighted the need for action:

- The COP26 summit in Glasgow reached a deal to limit global temperature rise to 1.5C, reduce the use of coal, and phase out fossil fuel subsidies. Among the outcomes, the Glasgow Financial Alliance for Net Zero (GFANZ) committed 40% of global private financial assets to net-zero by 2050 with a coalition representing $130 trillion.[2]
- The International Financial Reporting Standards (IFRS) Foundation launched the International Sustainability Standards Board (ISSB) to develop a global sustainability reporting framework and tackle rising concerns around corporate greenwashing.[3]
- In December 2021, federal mandate letters tasked the Ministers of Finance, and Environment and Climate Change, with developing “mandatory climate-related financial disclosures based on the Task Force on Climate-related Financial Disclosures (TCFD) framework and requir[ing] federally regulated institutions, including financial institutions,

[1] https://www.osc.ca/sites/default/files/2021-10/csa_20211018_51-107_disclosure-update.pdf

[2] https://www.bloomberg.com/news/articles/2021-11-02/carney-s-climate-alliance-crests-130-trillion-as-pledges-soar?sref=52ZWO6YM

[3] https://www.ft.com/content/3fb80e89-4ce6-4cc8-8472-ae4c8c99b12d

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pension funds and government agencies, to issue climate-related financial disclosures and net-zero plans."[4]

In this context, Clean Energy Canada supports the CSA's proposal to align Canada's mandatory disclosure rules with the TCFD, which is fast becoming the global standard.

However, we have several recommendations that we feel are necessary to align the proposed requirements with global best practices and investor expectations. These are summarized here and explained in more detail below.

Recommendations

1. **Require the largest companies to disclose the results of scenario analysis** to increase understanding of climate-related risks and support investment decisions. Scenario analysis requirements should initially apply to a subset of large companies (i.e. more than $5 billion market cap), and over time phased in to cover all listed companies.
2. **Mandate the disclosure of Scope 1 and 2 emissions for all listed companies** with no exceptions, and mandate Scope 3 emissions disclosure for the largest companies (i.e. more than $5 billion market cap). Provide a timetable to phase in Scope 3 reporting requirements for all other listed companies.
3. **Require GHG emissions disclosures to be independently verified**. Phase in auditing and verification requirements for other climate-related disclosures over time, in line with global standards development.
4. **Include broader I+ESG (Indigenous and Environmental, Social, Governance) disclosures in future updates to the proposed reporting rules.** These should be based on and aligned with widely-used frameworks, such as those developed by the Sustainability Accounting Standards Board (SASB).
5. **Adopt the proposed disclosure rules as a national instrument**, applying to all provincial regulators, to ensure consistency and broad uptake across the Canadian private sector.

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4 https://pm.gc.ca/en/mandate-letters/2021/12/16/deputy-prime-minister-and-minister-finance-mandate-letter

Detailed Comments

Note: Clean Energy Canada is responding to a subset of the discussion questions based on our experience with climate change reporting and the TCFD.

Question	Clean Energy Canada comments
Disclosure of GHG Emissions and Scenario Analysis	
Q4: 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?	**Recommendation: Scenario analysis should be mandatory for the largest companies by market capitalization (i.e. more than $5 billion). The CSA should also introduce a timetable and roadmap for these requirements to phase in and apply to all listed companies, and provide guidance and tools to support compliance and consistency.** Rationale: ● Canadian companies face significant transition and/or physical risks from climate change, including lower demand for fossil fuels (as consumers shift to electric vehicles and countries decarbonize electricity grids), higher regulatory and permit costs, and growing costs related to extreme weather.[5] Nearly 70% of exports and 60% of foreign direct investment are in transition-vulnerable sectors.[6] ● The Bank of Canada recently quantified transition risks for a number of Canadian sectors under three global scenarios: 1.5C, 2C-immediate, and 2C-delayed. Under all three, the oil and gas sector would see significant (~200%) higher credit default risk, income declines of over 80%, and equity valuation declines to nearly zero.[7]

[5] https://www.nature.com/articles/s41560-021-00934-2/figures/4; https://www.theglobeandmail.com/business/article-canadian-insurers-are-updating-risk-models-as-climate-change-driving/
[6] https://climatechoices.ca/reports/sink-or-swim/
[7] https://www.bankofcanada.ca/2022/01/assessing-climate-change-risks-to-our-financial-system/

	• The TCFD calls scenario analysis "an important and useful tool" to understand the resilience of a company's strategy and operations under various levels of warming and/or climate policy response.[8] • Scenario analysis is not intended to represent a full description of the future, but should be used to challenge conventional wisdom, explore alternatives to "business-as-usual" assumptions, and identify how a company might respond to distinct climate scenarios, including levels of warming, regulatory changes, shifts in market demand, etc. • The use of scenario analysis is increasing around the world, but is still not consistently or widely used in Canada. Globally, 54% of disclosing companies use scenario analysis, up from 47% in 2020.[9] Despite this trend, just 13% of ESG reports published by TSX-listed companies in 2021 disclosed scenario analysis.[10] In 2019, CPA Canada found just 5% of companies disclosed how resilient their strategies were under different climate scenarios,[11] despite this being the kind of information investors are increasingly demanding.[12] Canada risks falling behind as other jurisdictions move toward mandatory scenario analysis: for example, from April 2022, the U.K. government will require companies to publish qualitative scenario analysis.[13] • There is no 'one size fits all' approach to scenario analysis. Companies can begin with a qualitative or narrative approach, exploring various temperature, market, or policy scenarios, before moving onto more sophisticated analysis using quantitative data and modelling. Companies may use existing models as

8 https://www.tcfdhub.org/scenario-analysis/
9 https://www.cdp.net/en/articles/companies/3-common-pitfalls-companies-make-when-using-scenario-analysis-and-how-to-avoid-them
10 https://www.tsx.com/resource/en/2722
11 https://www.cpacanada.ca/en/business-and-accounting-resources/financial-and-non-financial-reporting/mdanda-and-other-financial-reporting/publications/climate-related-disclosure-study-2019-summary
12 https://www.tcfdhub.org/wp-content/uploads/2021/07/Millani-TCFD-sentiment-study-EN.pdf
13 https://www.gov.uk/government/news/uk-to-enshrine-mandatory-climate-disclosures-for-largest-companies-in-law

	an input, e.g. the International Energy Agency's World Energy Model,[14] or the IPCC's modeling on temperature and physical impacts. Sectoral models are also available, e.g. BloombergNEF forecasts for battery costs and electric vehicle uptake. Other resources include the TCFD's Knowledge Hub[15] and detailed guidance on scenario analysis,[16] and CDP's toolkit.[17] ● Due to Canada's high level of climate risk (both transition and physical), the growing demand from investors, and availability of resources and models, we recommend that mandatory scenario analysis be phased in over a period of 2-3 years. Requirements should initially apply to the largest companies by market capitalization and sectors (e.g. oil and gas) with a higher level of climate-related risk due to their business model or GHG emissions.
Q5: 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	**Recommendation: Mandate the disclosure of Scope 1 and 2 emissions with no exceptions (i.e. remove the option to 'comply or explain', as this would undermine the effectiveness of a mandatory standard). Scope 3 emissions disclosure should be mandatory for the largest and most emissions-intensive companies (i.e. more than $5 billion market cap, certain sectors with high Scope 3 emissions). Provide a timetable to phase in requirements for all other issuers.** Rationale: ● Canadian institutional investors are increasingly demanding disclosure of GHG emissions information. Reporting Scope 1 and 2 emissions is seen as a minimum requirement by 100% of investors, with 75% also requesting information on Scope 3 emissions.[18]

[14] https://www.iea.org/reports/world-energy-model
[15] https://www.tcfdhub.org/
[16] https://assets.bbhub.io/company/sites/60/2020/09/2020-TCFD_Guidance-Scenario-Analysis-Guidance.pdf
[17] https://www.cdp.net/en/companies/scenario-analysis-tool
[18] https://www.tcfdhub.org/wp-content/uploads/2021/07/Millani-TCFD-sentiment-study-EN.pdf

emissions only be required where such information is material? ● Should disclosure of Scope 2 GHG emissions and Scope 3 GHG emissions be mandatory?	● 68% of Canadian-listed companies currently disclose Scope 1 and 2 emissions.[19] By contrast, just 32% of TSX companies disclosed Scope 3 emissions in 2020.[20] Although this is an improvement over the previous year[21], it is still lower than the global average of 40%.[22] ● Scope 3 emissions are often the largest category, and ignoring them can miss 75% of a company's carbon footprint.[23] The CDP estimates that Scope 3 emissions are 5.5 times higher than direct (Scope 1 and 2) emissions on average.[24] For certain sectors—e.g. oil and gas[25], financial services[26]—the figure can be even higher, representing more than 90% of total emissions. ● The S&P/TSX Index is more carbon-intensive than other stock markets,[27] and heavily weighted toward sectors with large Scope 3 footprints. 9 of the 10 largest index companies are from sectors with large Scope 3 emissions (financials, energy, industrials). These three sectors make up 57% of the total index.[28] ● Without full-scope GHG accounting, companies and their investors cannot fully understand exposure to climate-related risks across supply chains, which could include regulations, market shifts, or physical impacts across multiple different jurisdictions. Without accurate emissions data, investors with net-zero

[19] https://smith.queensu.ca/centres/isf/pdfs/ISF-TSXEmittersReport.pdf
[20] In 2020 71% of companies published ESG reports; 45% of these reports disclosed Scope 3 emissions
[21] In 2019, 58% of companies published ESG reports; 36% of reports disclosed Scope 3 emissions. https://www.tsx.com/resource/en/2722
[22] https://www.riacanada.ca/magazine/scope-3-emissions-the-next-frontier-in-climate-engagements/
[23] https://www.unpri.org/climate-change/how-measuring-a-portfolio-carbon-footprint-can-assist-in-climate-risk-mitigation-and-reducing-emissions/608.article
[24] https://www.cdp.net/en/research/global-reports/global-supply-chain-report-2019
[25] https://www.unpri.org/climate-change/how-measuring-a-portfolio-carbon-footprint-can-assist-in-climate-risk-mitigation-and-reducing-emissions/608.article
[26] https://www.cdp.net/en/research/global-reports/financial-services-disclosure-report-2020
[27] https://smith.queensu.ca/centres/isf/pdfs/ISF-TSXEmittersReport.pdf
[28] As of December 31, 2021: https://www.spglobal.com/spdji/en/indices/equity/sp-tsx-composite-index/#overview

	commitments, such as pension funds and asset managers, will also struggle to accurately benchmark and reduce portfolio emissions. ● **A mandatory Scope 3 disclosure requirement can be effective at improving and accelerating disclosures without applying across the board.** Most Scope 3 emissions are concentrated in a minority of large carbon-intensive companies and sectors,[29] and two categories (use of sold products, and purchased goods and services) make up the majority of Scope 3 emissions.[30] Canada should follow the U.K.'s approach by phasing in such disclosures over a period of time, providing clear guidance for specific sectors to encourage consistency, and allow flexible reporting of the activities with the largest emissions impact.[31]
Q6: 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.	We support the use of the GHG Protocol or comparable standard for measuring and reporting GHG emissions. The GHG Protocol is widely used across the private sector, and is currently developing new tools to support the financial sector to accurately measure Scope 3 or 'financed' emissions.[32] This tool should be supported and mainstreamed across the Canadian financial services industry.

[29] https://www.economist.com/briefing/2020/06/20/how-much-can-financiers-do-about-climate-change
[30] https://www.cdp.net/en/articles/companies/how-can-companies-address-their-scope-3-greenhouse-gas-emissions
[31] The U.K. is adopting a "roadmap" to mandatory Scope 3 emissions disclosure: https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/1029354/tcfd-consultation-government-response.pdf
[32] https://ghgprotocol.org/blog/new-standard-developed-help-financial-industry-measure-and-report-emissions

Q7: 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?	**Recommendation: We support a phased-in approach to auditing and verification, beginning with GHG emissions data where independent verification is already widely used in Canada. As global standards develop around non-financial reporting and auditing (e.g. the ISSB), we recommend the CSA monitor developments and update the proposed instrument to keep pace with new norms and standards.** Rationale: ● GHG emissions verification is low in Canada, with just 29% of S&P/TSX companies undergoing independent verification. These emissions represent 57% of total index emissions, suggesting that verification is more widely used by emissions-intensive companies.[33] ● Many companies will already be using independent verification to comply with provincial GHG emissions reporting programs, such as those in Ontario,[34] Alberta,[35] B.C.,[36] and under Quebec's cap and trade program.[37] This suggests that there is already sufficient capacity and expertise to include GHG emissions verification requirements under the Proposed Instrument. ● In terms of auditing broader climate-related disclosures, most audits currently fail to assess corporate climate risk[38], and there is growing awareness of the potential for greenwashing in the U.S., EU, and other jurisdictions.[39] The International Sustainability Standards Board was established in 2021 by the IFRS Foundation with the aim of setting global standards and cracking down on "greenwashing" claims by companies.[40] The first set of standards will be

[33] https://smith.queensu.ca/centres/isf/pdfs/ISF-TSXEmittersReport.pdf
[34] https://www.ontario.ca/page/report-greenhouse-gas-ghg-emissions#section-4
[35] https://open.alberta.ca/publications/standard-for-validation-verification-and-audit-version-5
[36] https://www2.gov.bc.ca/gov/content/environment/climate-change/industry/reporting
[37] https://www.environnement.gouv.qc.ca/changements/carbone/documents-spede/questions-reponses-en.pdf
[38] https://www.reuters.com/business/sustainable-business/top-carbon-emitters-fall-short-climate-risk-disclosure-report-says-2021-09-15/
[39] https://www.bloomberg.com/news/articles/2021-09-01/regulatory-scrutiny-of-esg-greenwashing-is-intensifying?sref=52ZWO6YM; https://www.reuters.com/business/sustainable-business/slowly-european-regulators-turn-up-heat-greenwashing-2021-11-04/
[40] https://www.reuters.com/business/cop/global-standards-body-takes-aim-company-greenwashing-claims-2021-11-03/

	published in late-2022 and will likely be followed by an assurance framework to audit how well standards are being applied.
Usefulness and benefits of disclosures contemplated by the Proposed Instrument	
Q9: 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?	**Recommendations:** ● **Mandatory climate-related disclosures should include information most relevant to investors, such as Scope 1, 2 and (where relevant) 3 emissions data, impacts of climate scenarios on capital expenditures and business plans, interim as well as long-term climate targets, and more detailed information on potential impacts of climate change to company assets and finances.** ● **Future updates should expand disclosure requirements to include broader ESG factors, in line with the SASB framework.** Rationale: ● An urgent priority for Canadian investors is more reliable information on climate risks and opportunities to support capital allocation decisions.[41] Canada's largest pension funds[42] and bond investors[43] have expressed support for "consistent and complete" disclosures through the two most commonly-used frameworks: TCFD and SASB. ● Global asset managers such as BlackRock (US$9.5 trillion in assets) now expect that companies provide detailed and credible transition plans showing how their business will be compatible with a net-zero economy. BlackRock says it will use such information to guide its shareholder engagement and proxy voting decisions.[44]

[41] https://smith.queensu.ca/centres/isf/pdfs/ISF-SustainableFinanceProgress.pdf
[42] https://mma.prnewswire.com/media/1341331/British_Columbia_Investment_Management_Corporation__BCI__CEOs_of.pdf?p=pdf
[43] https://bondinvestors.ca/uploaded/web/CBIA/documents/21%2008%2003%20CBIA%20ESG%20Statement.pdf
[44] https://www.blackrock.com/corporate/investor-relations/blackrock-client-letter

	● Investors are increasingly using shareholder engagement and proxy voting to pressure companies to report climate-related data and set targets. In 2021, shareholder resolutions passed at ConocoPhillips[45] and Chevron[46] supporting reductions in Scope 3 emissions, while shareholders voted against board members at Exxon due to concerns over the company's climate plans.[47] ● Recent surveys of Canadian institutional investors reveals several specific priorities for disclosure: [48] [49] ○ Scope 1, 2, and (where relevant) 3 emissions data: used to set portfolio emissions benchmarks and targets, and understand supply chain risk exposure. ○ Proportion of energy use from fossil fuels vs renewable energy sources: used to understand exposure to carbon pricing impacts. ○ More detailed scenario analysis, in particular granular information on how different climate scenarios and/or regulatory changes will impact capital expenditures and other financial indicators. ○ Interim climate targets (e.g. 2025 and 2030) in line with longer-term net-zero targets. ○ More detail on physical climate risks, e.g. location of assets and vulnerability to future climate-related extreme weather events.
Q10: What are the anticipated benefits associated with providing the disclosures contemplated by the Proposed Instrument? How would the Proposed Instrument	The benefits of the proposed instrument include: ● **Improved climate-related disclosures in line with other jurisdictions** ○ 99% of U.K. companies and 79% of European companies report GHG

[45] https://www.reuters.com/article/conocophillips-shareholder-vote-idAFL1N2MY37E
[46] https://www.reuters.com/business/energy/chevron-shareholders-approve-proposal-cut-customer-emissions-2021-05-26/
[47] https://www.theguardian.com/business/2021/may/26/exxonmobil-and-chevron-braced-for-showdown-over-climate
[48] https://www.tsx.com/resource/en/2672/millani-s-tcfd-disclosure-study-a-canadian-perspective-2021-06-23-en.pdf
[49] https://c3a4c62d-4602-4b4f-a312-c6c7a40c2d99.filesusr.com/ugd/66e92b_f91d3568cf3549e480d0426931fce17a.pdf

enhance the current level of climate-related disclosures provided by reporting issuers in Canada?	emissions data, compared to just 68% of Canadian companies. ○ 67% of U.K. companies and 53% of U.S. companies disclose a GHG reduction target, compared to just 27% of Canadian companies.[50] ○ 30% of companies listed on the TSX publish a TCFD aligned report, an increase from 23% the previous year.[51] This leaves the majority of Canadian companies lagging behind Europe and other regions.[52] ● **More consistent reporting across sectors and companies:** ○ Climate reporting skews toward larger companies, as well as those in certain sectors (e.g. extractives and mining, financials).[53] A reporting mandate will level the playing field, and improve transparency across the Canadian private sector—including companies that are under-reporting or not reporting significant GHG emissions.[54] ● **Better disclosure can lead to GHG emission reductions:** ○ Evidence from the U.K. suggests that once companies begin reporting GHG emissions, they generally take actions to reduce them. Studies found emissions dropped by 14-18% following new disclosure rules.[55] ● **Responding to growing investor demand—in Canada and globally:** ○ Canadian pension funds, banks, and asset managers have united in calls on investee companies to provide annual TCFD-aligned disclosures with GHG emissions data and detailed transition plans.[56] ○ Most investors globally now expect companies to provide climate-related information as a matter of course, with 75% of investors

[50] ISF, Assessing Current Canadian Corporate Performance on GHG Emissions, Disclosures and Target Setting, April 2021
[51] Millani, 5th annual ESG disclosure study, 2021
[52] https://www.fsb.org/wp-content/uploads/P141021-1.pdf
[53] https://www.tsx.com/resource/en/2672/millani-s-tcfd-disclosure-study-a-canadian-perspective-2021-06-23-en.pdf
[54] https://smith.queensu.ca/centres/isf/news/tsx-emitters-report.php
[55] https://smith.queensu.ca/centres/isf/news/tsx-emitters-report.php
[56] https://www.riacanada.ca/investor-statement-climate-change/

	preferring the TCFD framework.[57] Climate Action 100+, which coordinates investor engagement around climate disclosure and action, has 615 global investors with $60 trillion in assets under management.[58] The Glasgow Financial Alliance for Net Zero now has members responsible for $130 trillion in assets worldwide.[59]
Phased-in implementation	
Q17: 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.	• We support a rapid implementation of the proposed disclosure requirements. A survey by the Institute for International Finance found this was the number one priority for Canadian investors and concluded: "While some progress has been made and we seem to be heading in the right direction, things simply seem to be moving too slowly on this front, especially when compared to international action."[60] • In this context, we suggest moving up the initial disclosures to FY 2023 and 2025 (for non-venture and venture issuers, respectively) with the first year acting as a pilot phase where issuers will have the opportunity to build disclosure capacity and experience without facing penalties for non-compliance. After this 1-year phase in period, from 2024/2026 the disclosure requirements must be mandatory for all issuers. • This is similar to the approach taken by the EU Emissions Trading System (ETS) and other broad-based market regulations that include a period of pilot testing before the introduction of mandatory requirements.[61]

57 https://morrowsodali.com/insights/institutional-investor-survey-2021
58 https://www.climateaction100.org/approach/the-three-asks/
59 https://www.gfanzero.com/about/
60 https://smith.queensu.ca/centres/isf/pdfs/ISF-SustainableFinanceProgress.pdf
61 https://ec.europa.eu/clima/eu-action/eu-emissions-trading-system-eu-ets/development-eu-ets-2005-2020_en

Future ESG considerations	
Q18: 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 CSA adopting broader Indigenous+ESG reporting standards in the future, and agree that these should be aligned with existing frameworks such as SASB and the Taskforce on Nature-related Financial Disclosures (TNFD), as well as developing frameworks including the ISSB. ● In developing these border standards the CSA should consult with a wide range of stakeholders including Indigenous community representatives and civil society. ● The CSA should also align where possible with financial reporting standards in other jurisdictions, in particular the European Union's Sustainable Finance Disclosure Regulation. This expansion of reporting scope should not come at the expense of rapid adoption of the climate-related requirements currently under consideration, but should be phased in over the coming years.

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