

Consultation
Climate-related Disclosure Update and
CSA Notice and Request for Comment
Proposed National Instrument 51-107
Disclosure of Climate-related Matters

October 18, 2021

PART 1 - Introduction

Since the publication of CSA Staff Notice 51-358 *Reporting of Climate Change-related Risks* in August 2019 (**CSA Staff Notice 51-358**), the Canadian Securities Administrators (**CSA**) have continued to follow developments in relation to climate-related disclosure. Most recently, CSA staff have conducted research on domestic and international developments in this area, as well as an issue-oriented review of recent climate-related disclosure by Canadian reporting issuers. Separately, the 2021 Ontario Budget, released on March 24, 2021, discussed Environmental, Social and Corporate Governance (**ESG**) disclosure requirements, and stated that the Ontario Securities Commission (**OSC**) would begin policy work to inform further regulatory consultation on ESG disclosure.

The CSA are publishing proposed National Instrument 51-107 *Disclosure of Climate-related Matters* (the **Proposed Instrument**) and its companion policy (the **Proposed Policy**) for a 90-day comment period. The Proposed Instrument would introduce disclosure requirements regarding climate-related matters for reporting issuers (other than investment funds).

We are issuing this notice to provide an update on recent developments regarding climate-related disclosure and to solicit your comments on the Proposed Instrument as set out in Annex A and the Proposed Policy in Annex B. The text of the Proposed Instrument is also available on the following websites of CSA jurisdictions:

www.lautorite.qc.ca

www.bcsc.bc.ca

www.albertasecurities.com

www.osc.gov.on.ca

nssc.novascotia.ca

www.fcaa.gov.sk.ca

www.fcnb.ca

www.mbsecurities.ca

The public comment period expires on January 17, 2022.

PART 2 – Substance and Purpose of the Proposed Instrument

The focus on climate-related issues in Canada and internationally has grown rapidly in recent years with climate-related risks having become a mainstream business issue. There is growing discussion on moving toward mandatory climate-related disclosures that provide consistent, comparable and decision-useful information to market participants. Investors, particularly institutional investors, and other stakeholders are increasingly focused on climate-related risks and are seeking improved disclosure on issuer governance processes and the material risks, opportunities, and financial impacts of climate change.

The CSA note concerns about current climate-related disclosures, including the following:

- issuers' climate-related disclosures may not be complete, consistent, and comparable;
- quantitative information is often limited and not necessarily consistent;
- issuers may “cherry pick” by reporting selectively against a particular voluntary standard and/or frameworks; and
- sustainability reporting can be siloed and is not necessarily integrated into companies' periodic reporting structures.

Securities regulators have a role to play in promoting disclosures that yield decision-useful information for investors. This is achieved by requiring reporting issuers to disclose material information, which can be used by investors to inform their investment and voting decisions.

The CSA believe that the climate-related disclosure requirements contained in the Proposed Instrument would provide clarity to issuers on the information required to be disclosed and also facilitate consistency and comparability among issuers. Specifically, the climate-related disclosure requirements are intended to:

- improve issuer access to global capital markets by aligning Canadian disclosure standards with expectations of international investors;
- assist investors in making more informed investment decisions by enhancing climate-related disclosures;
- facilitate an “equal playing field” for all issuers through comparable and consistent disclosure; and
- remove the costs associated with navigating and reporting to multiple disclosure frameworks as well as reducing market fragmentation.

We are sensitive to concerns related to the regulatory burden and additional cost of mandatory climate-related disclosure. The CSA believe the Proposed Instrument addresses this concern in three ways:

1. issuers will not be required to disclose scenario analysis, including a 2°C or lower scenario;
2. issuers may disclose their greenhouse gas (**GHG**) emissions or explain why they have not done so;¹ and

¹ As an alternative, the CSA is also consulting on requiring issuers to disclose Scope 1 GHG emissions. Under this alternative, disclosure of Scope 2 and Scope 3 GHG emissions would not be mandatory. Issuers would have to disclose either their Scope 2 and 3 GHG emissions and the related risks, or the issuer's reasons for not disclosing this information.

3. the disclosure requirements will be phased-in over a one-year period for non-venture issuers and over a three-year period for venture issuers. It is not anticipated that the Proposed Instrument will come into force prior to December 31, 2022.²

PART 3 – Existing Disclosure Requirements

Current securities legislation in Canada requires disclosure of certain climate-related information in an issuer's regulatory filings if such information is material.

Existing requirements that may apply to climate-related information can be found in the following rules:

- National Instrument 51-102 *Continuous Disclosure Obligations* (**NI 51-102**);
- National Instrument 52-109 *Certification of Disclosure in Issuers' Annual and Interim Filings* (**NI 52-109**);
- National Instrument 52-110 *Audit Committees* (**NI 52-110**); and
- National Instrument 58-101 *Disclosure of Corporate Governance Practices* (**NI 58-101**).

In addition, guidance on corporate governance practices is provided in National Policy 58-201 *Corporate Governance Guidelines* (**NP 58-201**).

Existing disclosure requirements continue to apply and are not modified by the Proposed Instrument.

Please refer to Annex C for an overview of the relevant existing securities law provisions.

PART 4 – Summary of findings of 2021 Climate-related Disclosure Issue Oriented Review

In Spring 2021, staff in certain CSA jurisdictions³ (the **review staff**) conducted a targeted review of current public disclosure practices of 48 selected large Canadian issuers primarily from the S&P/TSX Composite Index, from a diverse range of industries, with respect to climate-related information (the **Disclosure Review**).

The Disclosure Review was contemplated as part of the CSA's follow-up work on CSA Staff Notice 51-358 to monitor disclosure of climate-related matters and to evaluate the current state of climate-related disclosure by Canadian issuers since its publication. Review staff assessed the extent to which material climate-related risks, financial impacts and related governance disclosure were provided in continuous disclosure (**CD**) filings. In addition, review staff reviewed voluntary disclosure reports provided by the selected issuers to gain a better understanding of additional climate-related disclosure being provided, and to assess whether potential material information had been omitted from issuers' CD filings.

Key findings of the review were as follows:

² Assuming the Proposed Instrument comes into force December 31, 2022 and an 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.

³ The Alberta Securities Commission, Autorité des marchés financiers, British Columbia Securities Commission, Financial and Consumer Affairs Authority of Saskatchewan, Financial and Consumer Services Commission of New Brunswick, and the Ontario Securities Commission.

- Generally speaking, when compared to the 2017 review findings published in CSA Staff Notice 51-354 *Report on Climate Change-related Disclosures Project (CSA Staff Notice 51-354)*, issuers are providing more climate-related information in their CD filings and voluntary reports. Risk disclosure increased across all risk types, and there was a marked improvement by issuers in addressing the qualitative financial impact of disclosed climate-related risks.
- While the volume of climate-related disclosures has increased and the quality has generally improved, review staff noted areas where disclosures were limited and lacked specificity. Although 92% of issuers disclosed climate-related risks in their CD filings, with regulatory and policy risks being the most commonly disclosed, on average only 59% of the risks were relevant, detailed and entity specific, while the remaining risks were either boilerplate, vague or incomplete. While 68% of the risk disclosures provided a qualitative discussion of the related financial impacts, 25% of risk disclosures did not address the financial impact at all, and no issuers quantified the financial impact of the identified risks.
- 92% of issuers provided climate-related disclosures in voluntary reports in a variety of forms, the most common being Sustainability or Environmental, Social, and Governance reports. Where voluntary third-party frameworks were referenced in voluntary disclosures, the Global Reporting Initiative (**GRI**) framework was the most common, followed by the Sustainability Accounting Standards Board (**SASB**) and the Task Force on Climate-related Financial Disclosures (**TCFD**) recommendations. On average, issuers referenced nearly three third-party frameworks in their voluntary reports.

For further information on the findings of the Disclosure Review, please see Annex D.

PART 5 – Background

CSA Publications

The CSA has issued the following publications regarding climate-related disclosures:

- CSA Staff Notice 51-333 *Environmental Reporting Guidance* (October 2010) (**CSA Staff Notice 51-333**);
- CSA Staff Notice 51-354 (April 2018); and
- CSA Staff Notice 51-358.

CSA Staff Notice 51-333, issued in 2010, provided guidance to issuers on existing continuous disclosure requirements relating to environmental matters under securities legislation. CSA Staff Notice 51-358 reinforced and expanded on the guidance provided in 2010. The intent was to provide issuers, particularly smaller issuers, with guidance on how they might approach preparing disclosures of material climate-related risks. The notice did not create any new legal requirements or modify existing ones.

CSA Staff Notice 51-358 followed the work conducted by the CSA to gather information on the state of climate change-related disclosure in Canada, which was reported in CSA Staff Notice 51-354. The work included a disclosure review, online survey, consultations and research. Based on this work, the CSA noted that it would consider further work including:

- proposing new disclosure requirements in the areas of issuers' governance processes in relation to material risks and opportunities, including the board of directors' (the **board**) responsibility

for oversight and the role played by management, and disclosure of how the issuer oversees the identification, assessment and management of material risks;

- revising NP 58-201 to introduce corporate governance guidelines in the areas contemplated by any such new disclosure requirements;
- providing additional staff guidance on how any such new disclosure requirements apply in the context of climate change-related risk; and
- requiring the disclosure of GHG emissions.

Please refer to Annex E for more details on previous CSA publications.

Developments in Ontario

In 2020, the Ontario government appointed the Capital Markets Modernization Taskforce (**Modernization Taskforce**) to review and make recommendations in relation to modernizing the capital markets regulatory framework in Ontario. Throughout the Modernization Taskforce's consultations, the increased use of ESG disclosure received significant support from industry stakeholders. In its final report, the Modernization Taskforce recommended mandating disclosure by public companies of material ESG information, specifically climate-related disclosure that is compliant with the final TCFD recommendations (discussed below) for issuers through regulatory filing requirements of the OSC.⁴

The 2021 Ontario Budget subsequently noted the Modernization Taskforce consultation and final recommendations. The Budget also stated that the OSC would begin policy work to inform further regulatory consultation on ESG disclosure.⁵

Please refer to Annex E for more details on Canadian developments.

TCFD Recommendations

In 2015, the Financial Stability Board (**FSB**) established the TCFD in order to develop recommendations for more effective climate-related disclosures that could promote more informed investment, credit, and insurance underwriting decisions, and enable stakeholders to better understand the concentrations of carbon-related assets in the financial sector and the financial system's exposures to climate-related risks.⁶

In June 2017, the TCFD released its final recommendations, providing a framework for companies and other organizations to develop more effective climate-related financial disclosures through existing reporting practices. The TCFD organized its recommendations of climate-related financial disclosures around four core elements: governance, strategy, risk management, and metrics and targets.

⁴ *Capital Markets Modernization Taskforce Final Report* (January 2021), online: <<https://files.ontario.ca/books/mof-capital-markets-modernization-taskforce-final-report-en-2021-01-22-v2.pdf>>, p. 71.

⁵ *Ontario's Action Plan : Protecting People's Health and Our Economy* (2021 Ontario Budget), online: <<https://budget.ontario.ca/2021/pdf/2021-ontario-budget-en.pdf>> at p. 113.

⁶ Task Force on Climate-related Financial Disclosures, online: <<https://www.fsb-tcfd.org>>.

Since the release of the TCFD final recommendations in 2017, there has been growing convergence around disclosure aligned with the TCFD recommendations.⁷

Please also refer to Annex F for more details on the TCFD and other notable international developments.

PART 6 – Summary of the Proposed Instrument and the Proposed Policy

Application of the Proposed Instrument

The Proposed Instrument would apply to all reporting issuers, other than investment funds, issuers of asset-backed securities, designated foreign issuers, SEC foreign issuers, certain exchangeable security issuers and certain credit support issuers.⁸

Disclosure requirements in the Proposed Instrument

The Proposed Instrument would require an issuer to disclose certain climate-related information in compliance with the TCFD recommendations (subject to certain modifications discussed below). The Modernization Taskforce's report noted that the TCFD recommendations are "a widely prevalent framework that has global support and meets investor needs for concise, standardized metrics on material climate-related issues".⁹ Several international jurisdictions are working to adopt the TCFD recommendations into their legal and regulatory frameworks.¹⁰

The disclosure requirements are set out in Part 2 of the Proposed Instrument, Form 51-107A and Form 51-107B and contemplate disclosure related to the four core elements of the TCFD recommendations:

- governance;
- strategy;
- risk management; and
- metrics and targets.

Details regarding the disclosure requirements are set out in the table below.

⁷ For example, the United Kingdom recently adopted disclosure rules for premium listed issuers that require issuers to ensure their disclosures are aligned with the TCFD recommendations. The IFRS Foundation also recently announced that a new sustainability standards board would build on the TCFD recommendations. In Canada, CEOs of Canada's eight largest pension plan investment managers, in a statement released in November 2020, cited the TCFD as one disclosure standard that companies should adopt. In 2018, the federal government's Expert Panel on Sustainable Finance also recommended defining and pursuing "a Canadian approach to implementing the recommendations of the TCFD." Please see Annexes E and F for more information.

⁸ Please refer to section 1.2 of the Proposed Instrument.

⁹ *Capital Markets Modernization Taskforce Final Report* (January 2021), online: <<https://files.ontario.ca/books/mof-capital-markets-modernization-taskforce-final-report-en-2021-01-22-v2.pdf>>, p. 70.

¹⁰ IOSCO, *Report on Sustainability-related Issuer Disclosures Final Report* (June 28, 2021), online: <<https://www.iosco.org/library/pubdocs/pdf/IOSCOPD678.pdf>>, p. 2.

Core element in TCFD recommendations	Related disclosure requirements in the Proposed Instrument
Governance Disclose the organization’s governance around climate-related risks and opportunities	Reporting issuers would be required to describe the following: - the board’s oversight of climate-related risks and opportunities - management’s role in assessing and managing climate-related risks and opportunities
Strategy Disclose the actual and potential impacts of climate-related risks and opportunities on the organization’s businesses, strategy, and financial planning where such information is material	Reporting issuers would be required to describe the following, where such information is material: - the climate-related risks and opportunities the issuer has identified over the short, medium, and long term - the impact of climate-related risks and opportunities on the issuer’s businesses, strategy, and financial planning
Risk management Disclose how the organization identifies, assesses, and manages climate-related risks	Reporting issuers would be required to describe the following: - the issuer’s processes for identifying and assessing climate-related risks - the issuer’s processes for managing climate-related risks - how processes for identifying, assessing, and managing climate-related risks are integrated into the issuer’s overall risk management
Metrics and targets Disclose the metrics and targets used to assess and manage relevant climate-related risks and opportunities where such information is material	Reporting issuers would be required to disclose: - the metrics used by the issuer to assess climate-related risks and opportunities in line with its strategy and risk management process where such information is material - Scope 1, Scope 2, and Scope 3 GHG emissions, and the related risks or the issuer’s reasons for not disclosing this information. The CSA is also consulting on an alternative approach, which would

Core element in TCFD recommendations	Related disclosure requirements in the Proposed Instrument
	require issuers to disclose Scope 1 GHG emissions. the targets used by the issuer to manage climate-related risks and opportunities and performance against targets where such information is material

Modifications to the TCFD recommendations

(1) Scenario analysis

Under the Proposed Instrument, reporting issuers would not be required to provide a “scenario analysis”. This disclosure would have described how resilient an issuer’s strategies are to climate-related risks and opportunities, taking into consideration a transition to a lower-carbon economy consistent with a 2°C or lower scenario and, where relevant to the issuer, scenarios consistent with increased physical climate-related risks. The CSA have heard concerns from stakeholders regarding scenario analysis, including:

- From an investor perspective, there are concerns regarding the usefulness, consistency and comparability of scenario analysis without a standardized set of assumptions.
- From an issuer perspective, there are concerns with the costs associated with developing scenario analysis. In addition, there are also questions surrounding the appropriate approach and methodology as climate-related scenario analysis may not be perceived as mature at this time.

(2) GHG emissions

Reporting issuers would have to disclose Scope 1, Scope 2, and Scope 3 GHG emissions and the related risks, or the issuer’s reasons for not disclosing this information. This would provide reporting issuers with flexibility in complying with these disclosure requirements. As an alternative, the CSA is also consulting on requiring issuers to disclose Scope 1 GHG emissions. Under this alternative, disclosure of Scope 2 and Scope 3 GHG emissions would not be mandatory. Issuers would have to disclose either their Scope 2 and 3 GHG emissions and the related risks, or the issuer’s reasons for not disclosing this information.

The Proposed Instrument would also provide issuers with flexibility in providing GHG disclosure in accordance with a “GHG emissions reporting standard”. As discussed in the Proposed Policy, a GHG emissions reporting standard is the GHG Protocol, or a reporting standard for calculating and reporting GHG emissions if it is comparable with the GHG Protocol. Where an issuer uses a reporting standard that is not the GHG Protocol, it would also be required to disclose how the reporting standard used is comparable with the GHG Protocol. This approach enables issuers to utilize alternative methodologies, while facilitating comparability between issuers providing GHG disclosure.

Location of disclosure

The climate-related disclosure requirements relating to governance would be included in a reporting issuer's management information circular. For issuers that do not send a management information circular to its securityholders, the disclosure would be provided in the issuer's annual information form (AIF) or its annual management's discussion and analysis (MD&A), if the issuer does not file an AIF.¹¹

The climate-related disclosures related to strategy, risk management and metrics and targets specified by the Proposed Instrument would be included in the reporting issuer's AIF, or its annual MD&A, if the issuer does not file an AIF.

Transition

To facilitate a proportionate approach, the Proposed Instrument contemplates a phased-in transition of the disclosure requirements over one and three-year periods. The length of the transition phase would depend on the issuer's status as a venture or non-venture issuer, with non-venture issuers being required to comply with the proposed disclosure requirements first.

The following table sets out when non-venture and venture issuers would be required to comply with the Proposed Instrument.

Category of issuer	Transition phase
Non-venture issuers	Financial years beginning on or after January 1 of the first year after the effective date of the Proposed Instrument (one-year transition phase)
Venture Issuers	Financial years beginning on or after January 1 of the third year after the effective date of the Proposed Instrument (three-year transition phase)

The following illustrates how the transition periods would work in practice for a reporting issuer with a December 31 financial year-end. The illustration assumes that the Proposed Instrument would come into force on December 31, 2022.

Category of issuer	Transition requirements
Non-venture issuers	Disclosure requirements would apply to annual filings in respect of the financial year ending <u>December 31, 2023</u> These annual filings would be due in <u>March 2024</u>

¹¹ We note that the CSA published for comment in May 2021 *Proposed Amendments to National Instrument 51-102 Continuous Disclosure Obligations and Other Amendments and Changes Relating to Annual and Interim Filings of Non-Investment Fund Reporting Issuers*, which contemplates amendments to the continuous disclosure regime to combine the financial statements, MD&A and AIF into one reporting document called the annual disclosure statement for annual reporting purposes, and the interim disclosure statement for interim reporting purposes.

Category of issuer	Transition requirements
Venture Issuers	Disclosure requirements would apply to annual filings in respect of the financial year ending <u>December 31, 2025</u> These annual filings would be due in <u>April 2026</u>

Summary of the Proposed Policy

The purpose of the Proposed Policy is to provide guidance relating to how the CSA intend to interpret and apply the Proposed Instrument. The Proposed Policy includes a discussion regarding the following:

(1) Summary of TCFD Recommendations

The disclosure requirements of the Proposed Instrument are set out in Form 51-107A and 51-107B and, subject to certain modifications, are consistent with the TCFD recommendations. Notably, the Proposed Instrument does not require issuers to disclose scenario analysis, which is the TCFD recommended disclosure that describes the resilience of an issuer's strategy, taking into consideration different climate-related scenarios. In addition, issuers may elect to not disclose the TCFD recommended disclosure respecting GHG emissions and their related risks, provided they instead disclose their reasons for not including this disclosure. As noted above, as an alternative, the CSA is also consulting on requiring issuers to disclose Scope 1 GHG emissions. The alternative requirement is set out in a text box in Annex A.

(2) Materiality

Materiality is the determining factor in any assessment of whether information is required to be disclosed in an issuer's continuous disclosure. Only material information needs to be included in an issuer's Form 51-102F1 *Management's Discussion and Analysis* (**Form 51-102F1**) and Form 51-102F2 *Annual Information Form* (**Form 51-102F2**). For purposes of those forms, information is likely material if a reasonable investor's decision whether to buy, sell or hold securities in an issuer would likely be influenced or changed if the information in question was omitted or misstated.

Consistent with the TCFD recommendations and with disclosure requirements respecting corporate governance matters under NI 58-101, however, the disclosure required by the Proposed Instrument relating to the climate-related "Governance" and "Risk Management" are not subject to a materiality assessment. Accordingly, issuers must provide this disclosure in the applicable continuous disclosure document as required by the Proposed Instrument.

(3) GHG Emissions

Item 4(a) of Form 51-107B requires an issuer to disclose each of its Scope 1, Scope 2 and Scope 3 GHG emissions and the related risks, or the issuer's reasons for not disclosing this information. Accordingly, where an issuer has disclosed its Scope 1 and Scope 2 GHG emissions but has elected to not disclose its Scope 3 GHG emissions, the issuer would be required to disclose its reasons for not providing this information. Where an issuer has elected to not disclose any GHG emissions, the issuer may provide its

reasons for not doing so in respect of GHG emissions as a whole, as opposed to a separate explanation for each scope.

Certain issuers are already required to disclose GHG emissions under existing reporting programs, including for example, on a per facility basis under the federal Greenhouse Gas Reporting Program. The CSA expect issuers that are subject to an existing GHG emissions reporting program to disclose Scope 1 GHG emissions under the Proposed Instrument. However, should they elect not to disclose Scope 1 GHG emissions under the Proposed Instrument, they should clearly explain their election in light of such pre-existing reporting obligations.

Subsection 4(2) of the Proposed Instrument requires an issuer to use a GHG emissions reporting standard to calculate and report its GHG emissions. A GHG emissions reporting standard is the GHG Protocol, or a reporting standard for calculating and reporting GHG emissions if it is comparable with the GHG Protocol. Issuers that provide GHG disclosure using a reporting standard that is not the GHG Protocol, must disclose how such standard is comparable with the GHG Protocol.

(4) Forward-Looking Information

Disclosure provided by issuers pursuant to the Proposed Instrument may constitute forward-looking information (**FLI**). When an issuer discloses FLI, it must comply with the requirements set out in Part 4A, Part 4B and section 5.8 of NI 51-102.

PART 7 – Annexes

The following annexes are attached to this notice:

- Annex A – Proposed Instrument
- Annex B – Proposed Policy
- Annex C – Existing Securities Legislation
- Annex D – CSA Disclosure Review
- Annex E – Domestic Developments
- Annex F – International Developments
- Where applicable, Annex G – Local Matters

PART 8 – Alternatives Considered and Reliance on Unpublished Studies, etc.

Alternatives considered

At this time, based on our ongoing review of developments in this area, as well as the recommendations of the Modernization Taskforce, the CSA are of the view that it is important to propose climate-related disclosure requirements rather than maintain the status quo. The CSA have previously issued staff guidance in relation to climate-related disclosure. The Proposed Instrument builds on the further work contemplated in CSA Staff Notice 51-354, specifically the contemplation of new climate-related disclosure requirements related to issuer governance processes and material risks and opportunities and GHG emissions. No alternatives to rule-making are being considered by the CSA at the present time.

As described in greater detail in Part 5 and Annex D, the CSA's 2021 Disclosure Review found that issuers are providing more climate-related information compared with the 2017 review findings published in CSA Staff Notice 51-354. While the review found that some aspects of climate-related disclosure have improved, there continue to be areas where reporting issuer disclosure could be improved further. These findings are consistent with some of the concerns noted by the CSA on the current state of climate-related disclosures in Part 2.

Throughout the Modernization Taskforce's consultations, the increased use of ESG disclosure received significant support from a variety of stakeholders, including issuers, investment firms, banks and law firms.

The Proposed Instrument reflects the growing international convergence around the TCFD recommendations. In developing the Proposed Instrument, the CSA reviewed the TCFD recommendations and developments in Australia, New Zealand, Switzerland, the United Kingdom, the European Union and the United States. The CSA also reviewed the recent proposals by the International Financial Reporting Standards Foundation (**IFRS Foundation**), the prototype climate standard developed by the group of five sustainability reporting organizations and the *Report on Sustainability-related Issuer Disclosures Final Report* by the International Organization of Securities Commissions (**IOSCO**) Sustainable Finance Task Force.

We note that the CSA has expressed support for the IFRS Foundation's proposal to establish a sustainability standards board and believe that its development, including its focus initially on climate-related disclosure that builds on the TCFD recommendations, will result in standards that are complementary to the Proposed Instrument. The Proposed Instrument will facilitate the provision of useful information to investors and our market's eventual transition towards international standards. The CSA will continue to monitor international developments, including the developments by the IFRS Foundation, to further inform our approach.

Reliance on unpublished studies, etc.

In developing the Proposed Instrument, the CSA did not rely upon any significant unpublished study, report or other written materials.

PART 9 – Local Matters

Where applicable, Annex G is being published in any local jurisdiction that is making related changes to local securities laws, including local notices or other policy instruments in that jurisdiction. It also includes any additional information that is relevant to that jurisdiction only.

PART 10 – Request for Comments

We welcome your comments on the Proposed Instrument and Proposed Policy and also invite comments on the following specific questions. In each instance, please provide an explanation for your answer.

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?

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?
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?
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?
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?
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?
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?
 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?

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?
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?

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?
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?
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?

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?
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?

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?

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

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?

PART 11 – How to Provide Comments

Please submit your comments in writing on or before January 17, 2022. If you are not sending your comments by email, please send us an electronic file containing the submissions (in Microsoft Word Format).

Address your submission to the CSA jurisdictions as follows:

Alberta Securities Commission
Autorité des marchés financiers
British Columbia Securities Commission
Financial and Consumer Services Commission, New Brunswick
Financial and Consumer Affairs Authority of Saskatchewan
Manitoba Securities Commission
Nova Scotia Securities Commission
Nunavut Securities Office
Office of the Superintendent of Securities, Newfoundland and Labrador
Ontario Securities Commission
Office of the Superintendent of Securities, Northwest Territories
Office of the Yukon Superintendent of Securities
Superintendent of Securities, Department of Justice and Public Safety, Prince Edward Island

Deliver your comments only to the addresses listed below. Your comments will be distributed to the remaining jurisdictions.

The Secretary
Ontario Securities Commission
20 Queen Street West
22nd Floor, Box 55
Toronto, Ontario
M5H 3S8
Fax: 416-593-2318
comment@osc.gov.on.ca

Me Philippe Lebel
Corporate Secretary and Executive Director, Legal Affairs
Autorité des marchés financiers
Place de la Cité, tour Cominar
2640, boulevard Laurier, bureau 400
Québec (Québec) G1V 5C1
Fax: 514-864-6381
consultation-en-cours@lautorite.qc.ca

Comments received will be publicly available

We cannot keep submissions confidential because securities legislation in certain provinces requires publication of the written comments received during the comment period. All comments received will be posted on the websites of each of the Autorité des marchés financiers at www.lautorite.qc.ca and

the Ontario Securities Commission at www.osc.gov.on.ca. Therefore, you should not include personal information directly in comments to be published. It is important that you state on whose behalf you are making the submission.

PART 12 – Questions

If you have any questions, please contact any of the CSA staff listed below.

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Annex A – Proposed Instrument

PROPOSED NATIONAL INSTRUMENT 51-107 DISCLOSURE OF CLIMATE-RELATED MATTERS

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Part 1 Definitions and Interpretation

1. Definitions
2. Application

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3. Climate-related Governance Disclosure Requirements
4. Climate-related Strategy, Risk Management and Metrics and Targets Disclosure Requirements

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5. Exemption
6. Effective Date and Transition

PART 1 DEFINITIONS AND INTERPRETATION

Definitions

1. In this Instrument

“AIF” has the meaning ascribed to it in National Instrument 51-102 *Continuous Disclosure Obligations*;

“asset-backed security” has the meaning ascribed to it in National Instrument 51-102 *Continuous Disclosure Obligations*;

“designated foreign issuer” has the meaning ascribed to it in National Instrument 71-102 *Continuous Disclosure and Other Exemptions Relating to Foreign Issuers*;

“GHG” means greenhouse gas;

“GHG emissions reporting standard” means the GHG Protocol, or a reporting standard for calculating and reporting GHG emissions that is comparable with the GHG Protocol;

“GHG Protocol” means the 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;

“marketplace” has the meaning ascribed to it in National Instrument 51-102 *Continuous Disclosure Obligations*;

“MD&A” has the meaning ascribed to it in National Instrument 51-102 *Continuous Disclosure Obligations*;

“Scope 1” means all direct GHG emissions by an issuer;

“Scope 2” means all indirect GHG emissions arising from an issuer’s consumption of purchased electricity, heat or steam;

“Scope 3” means all other indirect GHG emissions of an issuer, other than those described in the definition of Scope 2;

“SEC foreign issuer” has the meaning ascribed to it in National Instrument 71-102 *Continuous Disclosure and Other Exemptions Relating to Foreign Issuers*;

“subsidiary entity” has the meaning ascribed to it in National Instrument 52-110 *Audit Committees*;

“U.S. marketplace” has the meaning ascribed to it in National Instrument 51-102 *Continuous Disclosure Obligations*;

“venture issuer” has the meaning ascribed to it in National Instrument 58-101 *Disclosure of Corporate Governance Practices*.

Application

2. This Instrument applies to a reporting issuer other than a reporting issuer that is any of the following:
 - (a) an investment fund;
 - (b) an issuer of an asset-backed security;
 - (c) a designated foreign issuer or SEC foreign issuer;
 - (d) an exchangeable security issuer that is exempt under section 13.3 of National Instrument 51-102 *Continuous Disclosure Obligations*;
 - (e) a credit support issuer that is exempt under section 13.4 of National Instrument 51-102 *Continuous Disclosure Obligations*;
 - (f) an issuer that is a subsidiary entity, if
 - (i) the subsidiary entity does not have equity securities, other than non-convertible, non-participating preferred securities, trading on a marketplace, and
 - (ii) the parent of the subsidiary entity is
 - (A) subject to the requirements of this Instrument, or

- (B) an issuer that has securities listed or quoted on a U.S. marketplace, and is in compliance with the corporate governance disclosure requirements of that U.S. marketplace.

PART 2 DISCLOSURE REQUIREMENTS

Climate-related Governance Disclosure Requirements

3. (1) If management of a reporting issuer solicits a proxy from a security holder of the issuer for the purpose of electing directors to the reporting issuer's board of directors, the issuer must include in its management information circular the disclosure referred to in Form 51-107A.
- (2) A reporting issuer that does not send a management information circular to its security holders must include the disclosure referred to in Form 51-107A in its AIF, or if it does not file an AIF, in its annual MD&A.

Climate-related Strategy, Risk Management and Metrics and Targets Disclosure Requirements

4. (1) A reporting issuer must include the disclosure referred to in Form 51-107B in its AIF, or if it does not file an AIF, in its annual MD&A.
- (2) A reporting issuer that includes the disclosure of GHG emissions referred to in Form 51-107B in its AIF or annual MD&A must use a GHG emissions reporting standard to calculate and report its GHG emissions.

PART 3 EXEMPTION AND EFFECTIVE DATE

Exemption

5. (1) The regulator or securities regulatory authority may grant an exemption from this Instrument, in whole or in part, subject to such conditions or restrictions as may be imposed in the exemption.
- (2) Despite subsection (1), in Ontario, only the regulator may grant such an exemption.
- (3) Except in Ontario, an exemption referred to in subsection (1) is granted under the statute referred to in Appendix B of National Instrument 14-101 *Definitions*, opposite the name of the local jurisdiction.

Effective Date and Transition

6. (1) This Instrument comes into force on [●].
- (2) This Instrument applies:
- (a) in the case of a reporting issuer other than a venture issuer, in respect of each financial year beginning on or after [January 1 of the first year after [●]];

- (b) in the case of a venture issuer, in respect of each financial year beginning on or after [January 1 of the third year after [●]].

FORM 51-107A
CLIMATE-RELATED GOVERNANCE DISCLOSURE

1. Governance

- (a) Describe the board of directors' oversight of climate-related risks and opportunities.
- (b) Describe management's role in assessing and managing climate-related risks and opportunities.

INSTRUCTION:

This Form applies to corporate and non-corporate entities. Reference to a particular corporate characteristic, such as a board of directors, includes any equivalent characteristic of a non-corporate entity. Income trust issuers must provide disclosure in a manner that recognizes that certain functions of a corporate issuer, its board of directors and its management may be performed by any or all of the trustees, the board of directors or management of a subsidiary of the trust, or the board of directors, management or employees of a management company. In the case of an income trust, references to "the issuer" refer to both the trust and any underlying entities, including the operating entity.

FORM 51-107B

CLIMATE-RELATED STRATEGY, RISK MANAGEMENT AND METRICS AND TARGETS DISCLOSURE

1. Strategy

- (a) Describe the climate-related risks and opportunities the issuer has identified over the short, medium, and long term.
- (b) Describe the impact of climate-related risks and opportunities on the issuer's businesses, strategy, and financial planning.

2. Risk Management

- (a) Describe the issuer's processes for identifying and assessing climate-related risks.
- (b) Describe the issuer's processes for managing climate-related risks.
- (c) Describe how processes for identifying, assessing, and managing climate-related risks are integrated into the issuer's overall risk management.

3. Metrics and Targets

- (a) Disclose the metrics used by the issuer to assess climate-related risks and opportunities in line with its strategy and risk management process.
- (b) Describe the targets used by the issuer to manage climate-related risks and opportunities and the issuer's performance against these targets.

4. GHG Emissions

- (a) Disclose:
 - (i) the issuer's Scope 1 GHG emissions and the related risks, or the issuer's reasons for not disclosing this information,
 - (ii) the issuer's Scope 2 GHG emissions and the related risks, or the issuer's reasons for not disclosing this information, and
 - (iii) the issuer's Scope 3 GHG emissions and the related risks, or the issuer's reasons for not disclosing this information.
- (b) disclose the reporting standard used by the issuer to calculate and disclose the GHG emissions referred to in (a).
- (c) If the reporting standard referred to in (b) is not the GHG Protocol, disclose how the reporting standard used by the issuer is comparable with the GHG Protocol.

As an alternative, the CSA is also consulting on requiring issuers to disclose Scope 1 GHG emissions either a) when that information is material, or b) in all cases. Under this alternative, disclosure of Scope 2 and Scope 3 GHG emissions would not be mandatory. Issuers would have to disclose either their Scope 2 and 3 GHG emissions and the related risks, or the issuer's reasons for not disclosing this information. Text reflecting this alternative disclosure requirement for Scope 1 GHG emissions in all cases is set out below.

GHG Emissions

(a) Disclose:

- (i) the issuer's Scope 1 GHG emissions and the related risks,
- (ii) the issuer's Scope 2 GHG emissions and the related risks, or the issuer's reasons for not disclosing this information, and
- (iii) the issuer's Scope 3 GHG emissions and the related risks, or the issuer's reasons for not disclosing this information.

(b) disclose the reporting standard used by the issuer to calculate and disclose the GHG emissions referred to in (a).

(c) If the reporting standard referred to in (b) is not the GHG Protocol, disclose how the reporting standard used by the issuer is comparable with the GHG Protocol.

INSTRUCTIONS:

(1) This Form applies to both corporate and non-corporate entities. Income trust issuers must provide disclosure in a manner that recognizes that certain functions of a corporate issuer, its board of directors and its management may be performed by any or all of the trustees, the board of directors or management of a subsidiary of the trust, or the board of directors, management or employees of a management company. In the case of an income trust, references to "the issuer" refer to both the trust and any underlying entities, including the operating entity.

(2) An issuer is not required to disclose information that is not material in respect of items 1 and 3. An issuer must exercise judgment when it determines whether information is material in respect of the issuer. Would a reasonable investor's decision whether or not to buy, sell or hold securities in the issuer likely be influenced or changed if the information in question was omitted or misstated? If so, the information is likely material.

(3) An issuer may incorporate information required to be disclosed under Item 4 by reference to another document. The issuer must clearly identify the reference document or any excerpt of it that the issuer incorporates into the disclosure provided under Item 4. Unless the issuer has already filed the reference document or excerpt under its SEDAR profile, the issuer must file it at the same time as it files the document containing the disclosure required under this Form.

Annex B – Proposed Policy

PROPOSED COMPANION POLICY 51-107CP DISCLOSURE OF CLIMATE-RELATED MATTERS

PART 1 GENERAL

Introduction and Purpose

1. National Instrument 51-107 *Disclosure of Climate-Related Matters* (the “Instrument”) establishes disclosure requirements regarding climate-related matters for reporting issuers (other than investment funds, issuers of asset-backed securities, designated foreign issuers, SEC foreign issuers, certain exchangeable security issuers and certain credit support issuers).

We have implemented the Instrument to require reporting issuers to disclose certain climate-related information in their continuous disclosure documents. We believe that climate-related information is becoming increasingly important to investors in Canada and internationally, and that the disclosure required by the Instrument is an important element to their investment and voting decisions.

This companion policy (the “Policy”) provides information regarding the interpretation and application of the Instrument.

PART 2 TCFD RECOMMENDATIONS

TCFD Recommendations

2.(1) The disclosure requirements of the Instrument are set out in Form 51-107A and Form 51-107B and, subject to certain modifications, are consistent with the recommendations (the “TCFD recommendations”) developed by the Task Force on Climate-related Financial Disclosures (the “TCFD”) and published in their report entitled *Recommendations of the Task Force on Climate-related Financial Disclosures* dated June 2017 (the “TCFD Final Report”). Notably, the Instrument does not require issuers to disclose a scenario analysis, which is the TCFD recommended disclosure that describes the resilience of an issuer’s strategy, taking into consideration different climate-related scenarios. In addition, issuers may elect to not provide the TCFD recommended disclosure respecting greenhouse gas (“GHG”) emissions and their related risks, provided they instead disclose their reasons for not including this disclosure.¹²

(2) The TCFD recommendations are summarized in Figure 4 of Section C of the TCFD Final Report and are reproduced in Table 1 below. Table 1 also illustrates the modifications to the TCFD recommended disclosures required by the Instrument:

¹² As an alternative, the CSA is also consulting on requiring issuers to disclose Scope 1 GHG emissions. Under this alternative, disclosure of Scope 2 and Scope 3 GHG emissions would not be mandatory. Issuers would have to disclose either their Scope 2 and 3 GHG emissions and the related risks or the issuer’s reasons for not disclosing this information.

Table 1: TCFD Recommendations and disclosure required by the Instrument

TCFD Recommendations	TCFD Recommended Disclosures	Disclosure required by the Instrument
Governance Disclose the organization's governance around climate-related risks and opportunities.	a) Describe the board's oversight of climate-related risks and opportunities. b) Describe management's role in assessing and managing climate-related risks and opportunities.	a) Same as TCFD Recommended Disclosures. b) Same as TCFD Recommended Disclosures.
Strategy Disclose the actual and potential impacts of climate-related risks and opportunities on the organization's businesses, strategy, and financial planning where such information is material.	a) Describe the climate-related risks and opportunities the organization has identified over the short, medium, and long term. b) Describe the impact of climate-related risks and opportunities on the organization's businesses, strategy, and financial planning. c) Describe the resilience of the organization's strategy, taking into consideration different climate-related scenarios, including a 2°C or lower scenario.	a) Same as TCFD Recommended Disclosures. b) Same as TCFD Recommended Disclosures. c) Not required.
Risk management Disclose how the organization identifies, assesses, and manages climate-related risks.	a) Describe the organization's processes for identifying and assessing climate-related risks. b) Describe the organization's processes for managing climate-related risks. c) Describe how processes for identifying, assessing, and managing climate-related risks are integrated into the organization's overall risk management.	a) Same as TCFD Recommended Disclosures. b) Same as TCFD Recommended Disclosures. c) Same as TCFD Recommended Disclosures.

TCFD Recommendations	TCFD Recommended Disclosures	Disclosure required by the Instrument
Metrics and targets Disclose the metrics and targets used to assess and manage relevant climate-related risks and opportunities where such information is material.	a) Disclose the metrics used by the organization to assess climate-related risks and opportunities in line with its strategy and risk management process. b) Disclose Scope 1, Scope 2, and, if appropriate, Scope 3 greenhouse gas (GHG) emissions, and the related risks. c) Describe the targets used by the organization to manage climate-related risks and opportunities and performance against targets.	a) Same as TCFD Recommended Disclosures. b) Not mandatory. An issuer must disclose its GHG emissions and the related risks or the issuer's reasons for not disclosing this information. c) Same as TCFD Recommended Disclosures.

(3) Consistent with the TCFD recommendations and with disclosure requirements respecting corporate governance matters under National Instrument 58-101 *Disclosure of Corporate Governance Practices*, the disclosure required by the Instrument relating to the TCFD recommendation “Governance” and “Risk management” in Table 1 above are not subject to a materiality assessment. Accordingly, issuers must provide this disclosure in the applicable continuous disclosure document as required by the Instrument.

Disclosure under the headings “Strategy” and “Metrics and targets” is only required where such information is material. Information is likely material if a reasonable investor’s decision whether to buy, sell or hold securities in an issuer would likely be influenced or changed if the information in question was omitted or misstated.

An issuer must disclose its GHG emissions and the related risks or the issuer’s reasons for not disclosing this information. As an alternative, the CSA is also consulting on requiring issuers to disclose Scope 1 GHG emissions either a) when that information is material, or b) in all cases. Under this alternative, disclosure of Scope 2 and Scope 3 GHG emissions would not be mandatory. Issuers would have to disclose either their Scope 2 and 3 GHG emissions and the related risks, or the issuer’s reasons for not disclosing this information. If necessary, the final form of Policy will be modified to reflect the alternative chosen.

TCFD and Other Guidance

3. The TCFD recommendations and their application are discussed more fully in the TCFD Final Report, as well as in other publications produced by the TCFD, such as:

- (a) *Implementing the Recommendations of the Task Force on Climate-related Financial Disclosures* (June 2017); and
- (b) *Guidance on Risk Management Integration and Disclosure* (October 2020).

In addition to this Policy, issuers should consider the TCFD Final Report and related publications from the TCFD in preparing the disclosure required by the Instrument. Issuers should also refer to guidance published by the CSA relating to assessing materiality and existing disclosure requirements that are consistent with the TCFD recommendations (as discussed below), including:

- (a) National Policy 51-201 *Disclosure Standards*;
- (b) CSA Staff Notice 51-333 *Environmental Reporting Guidance* (October 2010);
- (c) CSA Staff Notice 51-354 *Report on Climate Change-related Disclosures Project* (April 2018); and
- (d) CSA Staff Notice 51-358 *Reporting of Climate Change-related Risks* (August 2019).

Consistency with Existing Disclosure Requirements

4. Certain disclosure requirements contained in the Instrument are consistent with pre-existing disclosure requirements under Canadian securities legislation. For example, item 1 (a) of Form 51-107B requires issuers to describe the climate-related risks and opportunities it has identified over the short, medium, and long term. This disclosure requirement is consistent with risk factor disclosure required under National Instrument 51-102 *Continuous Disclosure Obligations*. An issuer is required to disclose in its annual information form, if any, risk factors relating to it and its business that would be most likely to influence an investor's decision to purchase the issuer's securities, and an issuer is required to discuss in its annual management's discussion and analysis its analysis of its operations for the most recently completed financial year, including commitments, events, risks or uncertainties that it reasonably believes will materially affect its future performance.

Greenhouse Gas Emissions Disclosure

5. (1) Item 4(a) of Form 51-107B requires an issuer to disclose each of its Scope 1, Scope 2 and Scope 3 GHG emissions or explain why it has not done so. Accordingly, where an issuer has disclosed its Scope 1 and Scope 2 GHG emissions but has elected to not disclose its Scope 3 GHG emissions, the issuer would be required to disclose its reasons for not providing its Scope 3 GHG emissions. Where an issuer has elected to not disclose any GHG emissions, the issuer may provide its reasons for not doing so in respect of GHG emissions as a whole, as opposed to a separate explanation for each scope.

(2) Certain issuers are already required to disclose GHG emissions under existing reporting programs, including for example, on a per facility basis under the federal Greenhouse Gas Reporting Program. The securities regulatory authorities expect issuers that are subject to an existing GHG emissions reporting program to disclose Scope 1 GHG emissions under the Instrument. However, should they elect to not disclose Scope 1 GHG emissions under the Instrument, they should clearly explain their election in light of such pre-existing reporting obligations.

(3) Subsection 4(2) of the Instrument requires an issuer to use a GHG emissions reporting standard to calculate and report its GHG emissions. A GHG emissions reporting standard is the GHG Protocol, or a reporting standard for calculating and reporting GHG emissions if it is comparable with the GHG Protocol. Accordingly, pursuant to item 4(c) of Form 51-107B, issuers who disclose GHG emissions using a reporting standard that is not the GHG Protocol must disclose how such standard is comparable with the GHG Protocol.

(4) Form 51-107B permits an issuer to incorporate GHG disclosure by reference to another document. If doing so, the issuer must clearly identify the reference document or any excerpt of it that the issuer incorporates into the disclosure provided under Item 4 of Form 51-107B. Unless the issuer has already filed the reference document or excerpt under its SEDAR profile, the issuer must file it at the same time as it files the document containing the disclosure required under Form 51-107B.

Forward Looking Information

6. Disclosure provided by issuers pursuant to the Instrument may constitute forward-looking information (“FLI”). If an issuer discloses FLI, it must comply with the requirements set out in Part 4A, Part 4B and section 5.8 of National Instrument 51-102 *Continuous Disclosure Obligations*.

Guidance on those requirements can be found in Part 4A of Companion Policy 51-102CP *Continuous Disclosure Obligations* and CSA Staff Notice 51-330 *Guidance Regarding the Application of Forward-Looking Information Requirements under NI 51-102 Continuous Disclosure Obligations*.

The FLI requirements do not relieve issuers from disclosing material climate-related risks even if they are expected to occur or crystallize over a longer time frame.

PART 3 TRANSITION

Transitional Periods

7. The Instrument will apply to issuers on a phased-in transition, beginning with issuers other than venture issuers (“non-venture issuers”) followed by venture issuers. Non-venture issuers must include the disclosure required by the Instrument in the applicable continuous disclosure document in respect of each financial year that begins on or after January 1 of the first year after the Instrument is made effective. As an example, for a non-venture issuer that has a financial year that begins on January 1 and ends on December 31, if the Instrument becomes effective in 2022, a non-venture issuer would be required to include the disclosure required by Form 51-107B in its AIF for its financial year ended December 31, 2023, and for every financial year thereafter. For venture issuers, the Instrument will apply in respect of each financial year that begins on or after January 1 of the third year after the Instrument is made effective. Using the same example as above (except where the issuer is a venture issuer), the issuer would be required to include the disclosure required by Form 51-107B for its financial year ended December 31, 2025, and for every financial year thereafter.

If a venture issuer becomes a non-venture issuer during the period when the Instrument only applies to non-venture issuers, the disclosure required by the Instrument will not be required in the applicable continuous disclosure document for the financial years in which the issuer was a venture issuer.

Annex C - Existing Securities Legislation

The following summary provides a non-exhaustive overview of existing requirements that currently may apply to the disclosure of climate-related information.

1. Materiality

Generally, materiality is the determining factor in considering whether information is required to be disclosed. As provided in Form 51-102F1 and Form 51-102F2, information is likely material where a reasonable investor's decision whether or not to buy, sell or hold securities of the issuer would likely be influenced or changed if the information was omitted or misstated.

2. Material Risk Factor Disclosure

Item 5.2 of Form 51-102F2 requires an issuer to disclose in its AIF, risk factors relating to it and its business that would be most likely to influence an investor's decision to purchase the issuer's securities. Accordingly, any climate-related risks that are determined to be material to the issuer must be disclosed pursuant to this item. In certain instances, securities legislation may require the quantification of these types of risks. For example, Item 5.1(1)(k) of Form 51-102F2 requires an issuer to disclose the financial and operational effects of environmental protection requirements in the current financial year and the expected effect in future years.

Item 1.4(g) of Form 51-102F1 requires an issuer to discuss in its MD&A, its analysis of its operations for the most recently completed financial year, including commitments, events, risks or uncertainties that it reasonably believes will materially affect its future performance.

3. Risk management and oversight

Two sets of disclosure requirements provide insight into how issuers are managing material risks:

- Disclosure of environmental policies fundamental to operations
 - Item 5.1(4) of Form 51-102F2 requires issuers to describe environmental policies that are fundamental to their operations and the steps taken to implement them.
- Disclosure of board mandate and committees
 - The guidelines in section 3.4 of NP 58-201 state that an issuer's board should adopt a written mandate that explicitly acknowledges responsibility for, among other things: (i) adopting a strategic process and approving, at least annually, a strategic plan that takes into account the opportunities and risks of the business; and (ii) the identification of the principal risks of the issuer's business and ensuring the implementation of appropriate systems to manage these risks.

- Pursuant to section 2 of Form 58-101F1 *Corporate Governance Disclosure*, non-venture issuers are required to disclose the text of their board mandate, or if the board does not have a written mandate, to explain how they delineate roles and responsibilities.
- NI 58-101 requires both venture and non-venture issuers to identify and describe the function of any standing committees other than audit, compensation and nominating committees (which would include environmental or other committees responsible for managing climate-related issues), and to disclose the text of the audit committee's charter (for some issuers, the audit committee may have responsibility for, among other things, environmental risk management).

With respect to the oversight of disclosure, NI 52-110 requires an issuer's audit committee to review its financial statements and MD&A, and NI 51-102 requires their approval by the board of directors, although the approval of interim filings may be delegated to the audit committee. NI 52-109 requires an issuer's Chief Executive Officer and Chief Financial Officer to certify certain matters in relation to the financial statements, MD&A and, if applicable, AIF. Finally, NP 58-201 and NI 52-110 establish guidelines and requirements intended to assist issuers in the implementation of policies and practices required for effective corporate governance and oversight over their business, including the identification and management of business risks.

4. Controls and Procedures

Under NI 52-109, to support the review, approval and certification process discussed above, an issuer must have adequate controls and procedures in place for its disclosure of material information, including climate-related information. The audit committee and certifying officers have key responsibilities in establishing these controls and procedures. In particular, the audit committee has responsibilities under NI 52-110 in respect of procedures in place for the review of the issuer's public disclosure of financial information extracted or derived from financial statements.

Annex D – CSA Disclosure Review

A. Features of the Disclosure Review

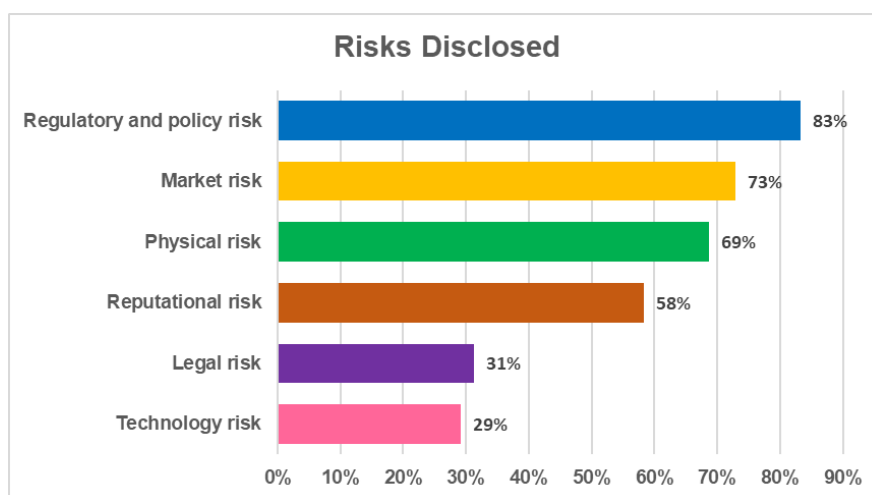
Feature	Details from Disclosure Review
Who was selected?	48 issuers selected primarily from the S&P/TSX Composite Index. - Wide range of industries, including: finance and insurance, communications, consumer products, industrial, life sciences, healthcare, mining, oil and gas, oil and gas services, construction and engineering, pipelines, real estate, technology, and utilities. - Market capitalization ranged from \$800 million to nearly \$180 billion, with: 30% of issuers within the \$2 billion to \$5 billion range. 21% of issuers within the \$800 million to \$2 billion range. 17% of issuers within the \$5 billion to \$10 billion range. 17% of issuers above \$25 billion. 15% of issuers within the \$10 billion to \$25 billion range.
Which documents were reviewed?	- CD filings: - Financial statements, MD&As, AIFs, and information circulars. - Voluntary disclosures: - Issuers' websites, sustainability reports and other voluntary reports/presentations, public surveys, etc.
What types of topics were considered?	- Current disclosure practices in CD filings, including: - A review of issuers' climate-related disclosure in relation to existing disclosure requirements under securities legislation in Canada, with a focus on risk disclosure. - A review of issuers' voluntary disclosure for potentially material climate-related information which was omitted from their CD filings. - Whether issuers disclosed their governance and risk management processes related to climate-related risks and impacts. - Information included in voluntary disclosure, including: - What voluntary disclosure frameworks that focus on climate-related issues are being referenced. - Disclosure of emissions-related metrics.

B. Findings:

The following is a summary of our findings regarding the current disclosure practices of large Canadian issuers with respect to climate-related information.

1. Climate-related disclosure in regulatory filings

- Our Disclosure Review, which examined CD filings against existing securities disclosure requirements in Canada, did not result in any re-filings, restatements or other corrective actions being requested.
- 92% of the issuers disclosed climate-related risks in their MD&A and/or AIF, while the remaining issuers disclosed no climate-related risks. The principal reason given by issuers that disclosed no climate-related risks was that such disclosure was not material to their business from a Canadian securities law perspective. The issuers that disclosed no climate-related risks were from a wide range of industries, including financial services, life sciences, technology and consumer products and services.
- The most commonly disclosed climate-related risks were regulatory and policy risks, which were disclosed by 83% of the issuers reviewed. The following chart outlines the types of climate-related risk disclosure provided by issuers in the Disclosure Review:



- The quality of risk disclosure varied depending on the risk disclosed, with regulatory and policy risks generally being the most relevant, detailed and entity specific. On average, 59% of the risks disclosed were relevant, detailed and entity specific, while 41% of the risks were either boilerplate, vague or incomplete. For 59% of the climate-related risks reviewed, issuers provided discussion of their strategies and efforts to manage and mitigate the risks.
- For those climate-related risks disclosed, 68% of the risk disclosures provided a qualitative discussion of the related financial impacts, while 25% of risks disclosed did not address the financial impact at all. While no issuers quantified the financial impact of the identified climate-related risks in their CD filings, a few issuers disclosed estimated financial impacts in their voluntary reports. When asked why the financial impacts were not disclosed in their CD filings, the primary reason

cited was that the impacts were not material to the issuer from a Canadian securities law perspective.

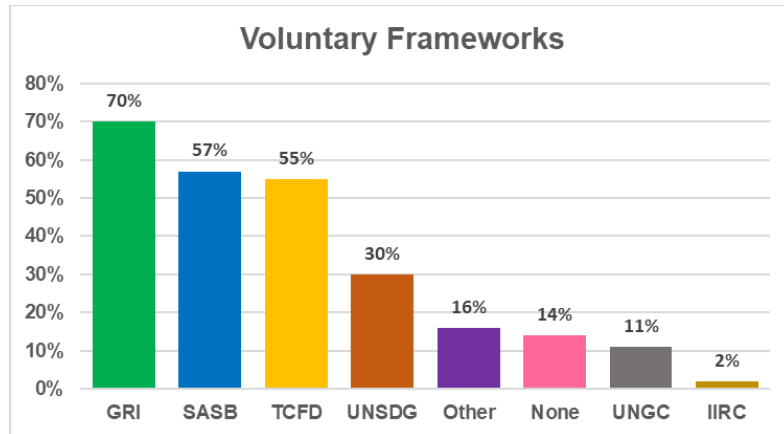
- Only two issuers disclosed the effects of climate-related matters in their financial statements.
- 40% of issuers, primarily from the energy industry, disclosed entity specific opportunities related to climate change within their CD filings.
- Of the issuers reviewed, 33% identified specific climate-related responsibilities in their Board of Directors' mandates, while 44% referred only to environmental issues in general. Thirty five percent of issuers disclosed that responsibility for climate-related matters falls under an issuer's health, safety and environment (or comparable) committee or other risk committee. 46% of issuers provided some disclosure around board oversight of climate related risks and opportunities, such as the processes and frequency by which the board and/or board committees are informed about climate-related issues, whether the board and/or board committees consider climate-related issues when reviewing and guiding organizational strategic and operational activities, and how the Board monitors and oversees progress against goals and targets for addressing the climate issue.

2. Climate -related disclosure in voluntary reports

- 92% of issuers provided climate-related disclosures in voluntary reports, with the most common forms being Sustainability or ESG reports (84%) as well as public surveys, including the CDP (formerly, the Carbon Disclosure Project) survey (45%). Fourteen percent of issuers, primarily from the energy industry, published stand-alone climate reports in addition to an ESG or sustainability report.
- The majority of issuers who provided voluntary climate-related disclosures (86%) referenced at least one third-party framework in their voluntary reports, with on average, issuers referencing nearly three third-party frameworks. Seventy percent of issuers referenced the GRI framework, 57% referenced SASB and 55% referenced the TCFD recommendations. While half of the issuers referenced the TCFD recommendations in their voluntary disclosure, only eight issuers (from the communications, banking, insurance, and energy industries) have formally declared their public support¹³ for the TCFD recommendations. The following chart outlines the types of voluntary frameworks¹⁴ referenced by issuers:

¹³Task Force on Climate-related Financial Disclosures, online : <<https://www.fsb-tcfd.org/supporters/>>.

¹⁴ UNSDG (United National Sustainable Development Goals); UNGC (United National Global Compact). For definitions of GRI, SASB and IIRC, please refer to Part 4.



- 82% of issuers who provided voluntary climate-related disclosures disclosed GHG emissions in their voluntary reporting. 39% disclosed Scope 1, Scope 2 and Scope 3 emissions, 56% disclosed Scope 1 and Scope 2 emissions, and 5% disclosed Scope 1 emissions only.

Annex E - Domestic Developments

1. Previous CSA Initiatives

The CSA has issued publications regarding climate-related disclosures on three previous occasions:

- CSA Staff Notice 51-333 *Environmental Reporting Guidance* (October 2010);
- CSA Staff Notice 51-354 *Report on Climate Change-related Disclosures Project* (April 2018); and
- CSA Staff Notice 51-358 *Reporting of Climate Change-related Risks* (August 2019).

CSA Staff Notice 51-333

In October 2010 the CSA published CSA Staff Notice 51-333, which provided guidance to issuers on existing continuous disclosure requirements relating to environmental matters under securities legislation.

In particular, this notice was intended to assist issuers in: (1) determining what information about environmental matters needs to be disclosed, and (2) enhancing or supplementing their disclosure regarding environmental matters, as necessary.

CSA Staff Notice 51-354

In March 2017, the CSA announced a CSA-wide project to review the disclosure by public companies of the risks and financial impacts associated with climate change. The work completed, findings from our project and recommended areas of future work were published in April 2018 in CSA Staff Notice 51-354.

The CSA completed an extensive and multifaceted review to gather information on the state of climate change-related disclosure in Canada. This work included:

- **Disclosure review** – Focused review of mandatory and voluntary climate change-related disclosure of 78 large issuers from the S&P/TSX composite Index.
- **Online survey** – Review of responses to a voluntary anonymous online survey sent to all TSX-listed issuers regarding current climate change-related disclosure practices (97 issuers responded to survey).
- **Consultations** – Fifty consultations, including in-person focus groups with reporting issuers, investors, advisors and other users of disclosure (“users” refers to investors, investor advocates, experts, academics, crediting rating agencies and analysts).
- **Research** – Review of climate change-related disclosure requirements in selected jurisdictions outside of Canada, as well as prominent voluntary disclosure frameworks.

CSA Staff Notice 51-354 noted variation among issuers in their disclosure practices regarding climate-related risks and concluded that there was room for improvement in the disclosure of several reporting issuers.

In addition, substantially all institutional investors and other users of disclosure who were consulted by the CSA expressed their desire for improvements in climate-related disclosures by issuers. One of the

outcomes of the review was that CSA staff would develop further guidance on the disclosure of material climate-related risks. Based on this work, the CSA noted that it would consider further work including:

- proposed new disclosure requirements in the areas of issuers' governance processes in relation to material risks and opportunities, including the board's responsibility for oversight and the role played by management, and disclosure of how the issuer oversees the identification, assessment and management of material risks;
- changing NP 58-201 to introduce corporate governance guidelines in the areas contemplated by any such new disclosure requirements;
- providing additional staff guidance on how any such new disclosure requirements apply in the context of climate change-related risk; and
- requiring the disclosure of GHG emissions.

CSA Staff Notice 51-358

On August 1, 2019, the CSA published CSA Staff Notice 51-358. The key objective of this notice was to provide issuers, particularly smaller issuers, with guidance on how they might approach preparing disclosures of material climate-related risks. The notice did not create any new legal requirements or modify existing ones, but instead reinforced and expanded on guidance provided in CSA Staff Notice 51-333.

The guidance contained in the notice primarily focused on issuers' disclosure obligations as they related to the MD&A and AIF. In particular, CSA Staff Notice 51-358:

- provided an overview of the responsibilities of boards and management relating to risk identification and disclosure;
- outlined relevant factors to consider in assessing the materiality of climate-related risks;
- provided examples of some of the types of climate-related risks to which issuers may be exposed;
- included questions for boards and management to consider in the climate change context; and
- provided an overview of the disclosure requirements if an issuer chooses to disclose forward-looking climate-related information.

2. Ontario Developments

In 2020, the Ontario government appointed the Modernization Taskforce to review and make recommendations in relation to modernizing the capital markets regulatory framework in Ontario. Throughout the Modernization Taskforce's consultations, the increased use of ESG disclosure received significant support from industry stakeholders.

In its final report, the Modernization Taskforce recommended mandating disclosure by public companies of material ESG information, specifically climate-related disclosure that is compliant with the final TCFD recommendations for issuers through regulatory filing requirements of the OSC.¹⁵

¹⁵ *Capital Markets Modernization Taskforce Final Report*, online : <<https://files.ontario.ca/books/mof-capital-markets-modernization-taskforce-final-report-en-2021-01-22-v2.pdf>>, p.71..

The key elements of the proposed ESG disclosure requirements outlined by the Modernization Taskforce were:

- the requirements would apply to all reporting issuers (non-investment fund);
- the requirements would include:
 - Mandatory disclosure recommended by the TCFD related to governance, strategy and risk management (subject to materiality). This would exclude mandatory disclosure of scenario analysis under an issuer’s strategy.
 - Disclosure of Scope 1, Scope 2, and, if appropriate, Scope 3 greenhouse gas emissions on a “comply-or-explain” basis.

The Modernization Taskforce recommended a transition phase for all issuers to comply with the new disclosure requirements, calculated from the implementation date of the new requirements.

After the transition phase is complete, the Modernization Taskforce recommended that the requirements apply to each issuer going forward.

The Modernization Taskforce encouraged the CSA to proceed in alignment with Ontario and implement similar disclosure requirements across Canada.

Subsequently, the 2021 Ontario Budget, released on March 24, 2021, included a section titled, “Increasing the Use of Environmental, Social and Corporate Governance Disclosure Requirements”. This section noted the Modernization Taskforce consultation and final recommendations. The Budget also stated that the OSC would begin policy work to inform further regulatory consultation on ESG disclosure.¹⁶

3. Other Noteworthy Domestic Developments

There are a number of other domestic initiatives and developments in this area that highlight the increasing importance of issuer climate-related disclosure practices and growing influence of the TCFD recommendations. We have summarized a few noteworthy initiatives below.

2021 Federal Budget

On April 19, 2021, the federal government released its 2021 Federal Budget. The Budget contains a section entitled “Strengthening Public climate-related Disclosures.” This section states that in order to give more clarity to the markets as technology advances, regulations evolve and consumer behaviours change in the face of climate change, the federal government “will engage with provinces and territories, with the objective of making climate disclosures, consistent with the Task Force on climate-related Financial Disclosures, part of regular disclosure practices for a broad spectrum of the Canadian economy.”

Sustainable Finance Action Council (SFAC)

¹⁶ *Ontario’s Action Plan : Protecting People’s Health and Our Economy* (2021 Ontario Budget), online: <<https://budget.ontario.ca/2021/pdf/2021-ontario-budget-en.pdf>>, p. 113.

In May 2021, the Canadian government launched the SFAC. The SFAC's mandate is to make recommendations on critical market infrastructure needed to attract and scale sustainable finance in Canada, including enhanced assessment and disclosure of climate risks and opportunities, better access to climate data and analytics, and common standards for sustainable low-carbon investments. The SFAC's initial emphasis, among other things, will be on enhancing climate-related financial disclosures that are aligned with the TCFD recommendations in Canada's private and public sector. The SFAC will have an Official Sector Coordinating Group that will observe and advise the SFAC, and includes provincial securities commissions.

Expert Panel on Sustainable Finance

In 2018, the Canadian government created the Expert Panel on Sustainable Finance to investigate ways the financial sector could help encourage and direct funds to low-carbon Canadian initiatives, with a final report *Mobilizing Finance for Sustainable Growth*, released in 2019. The report contained 15 recommendations outlining opportunities for sustainable growth, including the recommendation to define and pursue "a Canadian approach to implementing the recommendations of the TCFD."¹⁷

Bank of Canada and OSFI

In November 2020, the Bank of Canada and OSFI announced plans for a pilot project to use climate change scenarios to better understand the risks to the financial system related to a transition to a low-carbon economy.¹⁸

CPA Canada Study

CPA Canada released a report in 2021, *2019 Study of Climate-Related Disclosures by Canadian Public Companies*¹⁹ (the **2019 Study**). The objective of the 2019 Study was to review climate-related disclosures made by 40 TSX-listed Canadian companies in their regulatory filings and assess the alignment of such disclosures with the TCFD Recommendations. The key findings of the 2019 Study from the report are set out below.

- Almost all companies reviewed provided some TCFD-aligned disclosures, with slightly more than one-third of companies including disclosure in all four TCFD categories in regulatory and voluntary documents. On average, Canadian companies reviewed disclosed in 4.5 of the 11 TCFD subcategories versus the global average of 3.6.
- The most commonly disclosed category was "Strategy" in regulatory filings and "Metrics and Targets" in voluntary documents. Eighty per cent of companies reviewed included climate-related strategy disclosures in their regulatory filings.

¹⁷ *Final Report of the Expert Panel on Sustainable Finance* (2019), online :

<http://publications.gc.ca/collections/collection_2019/eccc/En4-350-2-2019-eng.pdf>, p. IV.

¹⁸ "Bank of Canada and OSFI launch pilot project on climate risk scenarios" (November 16, 2020), online: <<https://www.osfi-bsif.gc.ca/Eng/osfi-bsif/med/Pages/20201116-nr.aspx>>.

¹⁹ CPA Canada, *2019 Study of Climate-related disclosures by Canadian Public Companies*, online:

<<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#:~:text=2019%20study%20of%20climate%2Drelated%20disclosures%20by%20Canadian%20public%20companies,-Learn%20what%20leading&text=The%20study%20looked%20at%20climate,alignment%20with%20the%20TCFD%20recommen>>.

- 80% of companies disclosed GHG emissions in voluntary reporting and 15% of companies disclosed GHG emissions in regulatory documents.

Millani's TCFD Disclosure Study

A study by Millani in June 2021, *Millani's TCFD Disclosure Study: A Canadian Perspective*,²⁰ noted that despite growing market and regulatory pressures for disclosure aligned with the TCFD recommendations, only 23% of issuers listed on the S&P/TSX composite Index indicated their reports were aligned with the TCFD recommendations, while 54% did not mention the TCFD in their publicly available information. The study further noted that even issuers who indicated reporting in accordance with the TCFD recommendations did not always provide information considered useful by investors.

²⁰ Millani, *Millani's TCFD Disclosure Study: A Canadian Perspective* (June 14, 2021), online: <<https://www.millani.ca>>.

Annex F - International Developments

1. Task Force on Climate-related Financial Disclosures

In 2015, the Financial Stability Board (**FSB**) established the Task Force on Climate-related Financial Disclosures (**TCFD**) in order to develop recommendations for more effective climate-related disclosures that could promote more informed investment, credit, and insurance underwriting decisions, and enable stakeholders to understand better the concentrations of carbon-related assets in the financial sector and the financial system's exposures to climate-related risks.²¹

In June 2017, the TCFD released its final recommendations, providing a framework for companies and other organizations to develop more effective climate-related financial disclosures through existing reporting practices.

The TCFD divided climate-related risks into two categories:

- **Transition risks:** Risks related to the transition to a lower carbon economy (including risks related to policy and legal actions, technology, markets and reputations).
- **Physical risks:** Risks resulting from climate change impacts, which are classified as acute (i.e. event-driven) or chronic (i.e. longer-term shifts in climate patterns).

The TCFD also organized its recommendations of climate-related financial disclosures around four core elements:

- **Governance:** the organization's governance around climate-related risks and opportunities.
- **Strategy:** the actual and potential impacts of climate-related risks and opportunities on the organization's businesses, strategy and financial planning.
- **Risk Management:** The processes used by the organization to identify, assess, and manage climate-related risks.
- **Metrics and Targets:** The metrics and targets used to assess and manage relevant climate-related risks and opportunities.

2. Group of five sustainability reporting organizations

In September 2020, a group of five sustainability reporting organizations – CDP, the Climate Disclosure Standards Board (**CDSB**), the GRI, the International Integrated Reporting Council (**IIRC**) and the SASB²² – published a "Statement of Intent". The Statement reflects how these frameworks and standards can be applied in a complementary and additive way, complement financial generally accepted accounting principles and serve as a natural starting point for progress towards a comprehensive corporate reporting system. Members of the alliance have been working collaboratively to explore how their complementary frameworks can be brought together under a common reporting approach.

²¹ Task Force on Climate-related Financial Disclosures, online : <<https://www.fsb-tcfd.org>>.

²² On June 9, 2021, the IIRC and SASB officially announced their merger to form the Value Reporting Foundation.

In December 2020, the alliance released the paper, *Reporting on enterprise value: Illustrated with a prototype climate-related financial disclosure standard*.²³ The paper contains a prototype of climate-related financial disclosures that builds on the existing content of the alliance and their collective frameworks along with the TCFD recommendations.

The prototype is intended to serve as a model for what an eventual standard could look like and could also give a future sustainability standards board (see discussion of IFRS Foundation, below) a “running start” in developing a future climate standard.²⁴ IOSCO has established a Technical Expert Group (TEG) to engage with the IFRS Foundation as it works to establish a sustainability standards board. An important task of IOSCO’s TEG over the coming months will be to assess whether a refined version of the prototype developed by the group of five sustainability reporting organizations can form the basis for future standards development within a sustainability standards board.²⁵

3. IFRS Foundation

On September 30, 2020 the IFRS Foundation published a consultation paper to assess demand for global sustainability standards and whether the Foundation might contribute to the development of these standards. The consultation paper set out possible ways the Foundation might contribute to the development of global sustainability standards.

On February 2, 2021 the IFRS Foundation indicated that it intended to produce a definitive proposal (including a road map with timeline) by the end of September 2021, possibly leading to an announcement on the establishment of a sustainability standards board at the meeting of the UN Climate Change Conference (**COP26**) in November 2021.

The IFRS Foundation made further announcements in March 2021 around the strategic direction of a new sustainability standards board and the formation of a working group to accelerate the convergence in global sustainability reporting standards.

The IFRS Foundation recently announced proposed amendments to its Constitution to accommodate the potential formation of a new sustainability standards board.

4. IOSCO Sustainable Finance Task Force

In October 2018, IOSCO established a Sustainable Finance Network (**SFN**) to provide a forum for members to exchange experience and have structured discussions on various sustainability issues. In April 2020, IOSCO published its report *Sustainable Finance and the Role of Securities Regulators and IOSCO (April 2020 Report)*, which provided an overview of existing sustainable finance initiatives and a

²³ Group of Five Sustainability Reporting Organizations, “Reporting on enterprise value: Illustrated with a prototype climate-related financial disclosure standard” (December 2020), online: < https://29kjwb3armds2g3gi4lq2sx1-wpengine.netdna-ssl.com/wp-content/uploads/Reporting-on-enterprise-value_climate-prototype_Dec20.pdf>.

²⁴ IOSCO, “IOSCO sees strong support for its vision for an International Sustainability Standards Board under the IFRS Foundation” (10 May 2021), online: < <https://www.iosco.org/news/pdf/IOSCONEWS603.pdf>>.

²⁵ IOSCO, *Report on Sustainability-related Issuer Disclosures Final Report* (June 28, 2021), online: < <https://www.iosco.org/library/pubdocs/pdf/IOSCOPD678.pdf>>, pp. 4-5.

detailed analysis of the most relevant ESG-related international initiatives and third-party frameworks and standards.²⁶

With respect to disclosures, the report highlighted the evolving nature of this space. It also emphasized the need to improve the comparability of sustainability-related disclosures, noting that the lack of consistency and comparability across third party frameworks could create an obstacle to cross border financial activities and also raise investor protection concerns.²⁷ The report recommended the creation of a Sustainability Taskforce so that IOSCO could play a driving role in addressing sustainable finance issues.

Further to the recommendation in the April 2020 Report, IOSCO established a Board-level Sustainable Finance Taskforce (**STF**). The STF is carrying out work in three areas:

- Corporate issuers' sustainability-related disclosures
- Asset managers' disclosures and investor protection issues
- the role of ESG data and ratings providers.

On February 24, 2021 the IOSCO Board announced three priority areas for improvement in sustainability-related reporting: (1) encouraging globally consistent standards, (2) promoting comparable metrics and narratives and (3) coordination across approaches.

The press release noted that the IOSCO Board was committed to working with the IFRS Foundation Trustees and other stakeholders to advance these priorities and IOSCO's engagement would focus on establishing a sustainability standards board with a strong governance foundation.

On June 28, 2021, the STF released a report on corporate issuers' sustainability related disclosures.²⁸ The report highlighted (i) investor demand for sustainability-related information and evidence that this demand is not being properly met; and (ii) the need for improvements in the current landscape of sustainability standard-setting. The report identified core elements of standard-setting that could help meet investor needs and provided guidance to the IFRS Foundation as it develops an initial prototype climate reporting standard, building on the TCFD's recommendations. The report also provided input to the IFRS Foundation on governance features and mechanisms for stakeholder engagement that will be essential to making the sustainability standards board initiative successful.

5. Climate-related Disclosure Requirements in Other Jurisdictions

A number of jurisdictions have recently announced the introduction of climate-related disclosure or have indicated movement in that direction. Please refer to the chart below, which provides a summary of recent initiatives and announcements in certain jurisdictions.

²⁶ IOSCO, *Sustainable Finance and the Role of Securities Regulators and IOSCO Final Report* (April 2020), online: < <https://www.iosco.org/library/pubdocs/pdf/IOSCOPD652.pdf>>.

²⁷ Ibid.

²⁸ IOSCO, *Report on Sustainability-related Issuer Disclosures Final Report* (June 28, 2021), online: < <https://www.iosco.org/library/pubdocs/pdf/IOSCOPD678.pdf>>.

Jurisdiction	Summary of Initiative
United States	<i>Executive Order</i> - On May 20, 2021, President Biden signed an Executive Order stating that the Financial Stability Oversight Council (FSOC) will engage with FSOC members to consider actions including assessing in a detailed and comprehensive manner, climate-related financial risk, including both physical and transition risks, to the financial stability of the federal government and stability of the U.S. Financial system. <i>SEC Consultation and Potential Rule Proposal</i> - On March 15, 2021, SEC Acting Chair Allison Herren Lee announced that the SEC was seeking public input on the Commission’s disclosure rules and guidance as they apply to climate change disclosures.²⁹ - The input would feed into the evaluation conducted by SEC staff on its disclosure rules with an eye toward facilitating the disclosure of consistent, comparable and reliable information on climate change. - In a speech on May 26, 2021, the Acting Chair stated that the SEC “needs your advice, your thoughts, and your expertise as we endeavour to craft a rule proposal for climate and ESG disclosures.”³⁰ - On June 11, 2021, the SEC announced its regulatory agenda which includes SEC rulemaking areas including disclosure related to climate risk.³¹ <i>SEC Climate and ESG Task Force (Enforcement)</i> - On March 4, 2021, the SEC announced the creation of a Climate and ESG Task Force in the Division of Enforcement that will develop initiatives to proactively identify ESG-related misconduct.³² - The initial focus will be to identify any material gaps or misstatements in issuers’ disclosure of climate risks under existing rules. The task force will also analyze disclosure and compliance issues relating to investment advisers and funds ESG strategies.

²⁹ SEC “Public Input Welcomed on Climate Change Disclosures” (March 15, 2021), online: <<https://www.sec.gov/news/public-statement/lee-climate-change-disclosures>>.

³⁰ The Columbia Law School Blue Sky Blog, “SEC Commissioner Lee Speaks on Myths and Misconceptions about ‘Materiality’”, online: <<https://clsbluesky.law.columbia.edu/2021/05/26/sec-commissioner-lee-speaks-on-myths-and-misconceptions-about-materiality/>>.

³¹ SEC, “SEC Announces Regulatory Agenda”, (June 11, 2021), online: <<https://www.sec.gov/news/press-release/2021-99>>.

³² SEC, “SEC Announces Enforcement Task Force Focused on Climate and ESG Issues” (March 4, 2021), online: <<https://www.sec.gov/news/press-release/2021-42>>.

Jurisdiction	Summary of Initiative
United Kingdom	• In December 2020, the FCA published a final rule for UK premium listed companies titled ‘Policy Statement 20/17, Proposals to enhance climate-related disclosures by listed issuers and clarification of existing disclosure obligations’ (PS20/17).³³ • Premium listed companies must disclose compliance with the TCFD-aligned recommendations on a comply-or-explain basis. • PS20/17 implements a new listing rule and guidance that requires commercial companies with a UK premium listing to include a compliance statement in their annual financial report, stating whether they have made disclosures consistent with the recommendations of the TCFD or providing an explanation if they have not done so. • This rule applies for accounting periods beginning on or after 1 January 2021, and the first annual financial reports subject to this rule will be published in spring 2022. • On June 22, 2021, the FCA announced a consultation on proposals to extend the application of the climate-related disclosure requirements to issuers of standard listed equity shares.³⁴
European Union	• In 2018, the Non-Financial Reporting Directive (NFRD) came into effect. In June 2019, as part of its Sustainable Finance Action Plan (SFAP), the European Commission updated its non-binding guidelines of the NFRD to provide further guidance to companies on how to disclose climate change-related risk information in line with the TCFD recommendations. • Following a public consultation on the review of the NFRD mandated by the SFAP, the European Commission adopted in April 2021 a proposal for a Corporate Sustainability Reporting Directive (CSRD), which would amend the existing reporting requirements of the NFRD. This proposal expands the scope to all large companies and all companies listed on regulated markets (except listed micro-enterprises), requires assurance of reported information, introduces more detailed reporting requirements and a requirement to report according to mandatory EU sustainability reporting standards and requires companies to digitally ‘tag’ the reported information.³⁵ • The first set of standards would be adopted by October 2022 and should at least encompass climate change-related disclosure on a TCFD compatible basis.³⁶

³³ FCA, “PS20/17: Proposals to enhance climate-related disclosures by listed issuers and clarification of existing disclosure obligations” (December 21, 2020), online: <<https://www.fca.org.uk/publications/policy-statements/ps20-17-proposals-enhance-climate-related-disclosures-listed-issuers-and-clarification>>.

³⁴ FCA, “CP21/18: Enhancing climate-related disclosures by standard listed companies” (June 22, 2021), online: <<https://www.fca.org.uk/publications/consultation-papers/cp21-18-enhancing-climate-related-disclosures-standard-listed-companies>>.

³⁵ European Commission, “Corporate sustainability reporting”, online: <https://ec.europa.eu/info/business-economy-euro/company-reporting-and-auditing/company-reporting/corporate-sustainability-reporting_en>.

³⁶ Ibid.

Jurisdiction	Summary of Initiative
	• In 2020, the EU Taxonomy Regulation, a component of the SFAP, came into force. The Taxonomy is a classification system that sets out conditions that an economic activity has to meet in order to qualify as environmentally sustainable. The first company reports under the NFRD using the EU Taxonomy are due at the start of 2022 (for climate change mitigation and adaptation) and for all environmental objectives by December 31, 2023. • The Sustainable Finance Disclosure Rule (SFDR), also a component of the SFAP, came into effect in March 2021. The SFDR requires sustainability disclosure for asset managers, institutional investors and financial advisers for all investment processes and for financial products that pursue the objective of sustainable investment.
Australia	• In 2019, the Australian Securities and Investment Commission's (ASIC) updated its regulatory guidance on climate-related disclosure and encouraged reporting consistent with the TCFD recommendations. ASIC commenced market surveillance of climate-related disclosures of a group of large listed companies spanning a range of industries shortly thereafter. • In February 2021, ASIC issued a statement on its review and noted that overall, voluntary adoption of TCFD reporting by some larger listed companies had materially improved standards of climate-related governance and disclosure in the market. Among larger listed companies, ASIC observed a significant and meaningful increase in the level of engagement and disclosure on climate-related matters since its last examination in 2017–18.³⁷ • The statement noted that ASIC intends to adopt a consultative approach as it continues to monitor the adoption of TCFD reporting and the development of climate-risk disclosure practices and would consider enforcement action in the case of serious disclosure failures.
New Zealand	• In April 2021 the New Zealand government introduced legislation to make climate-related disclosures mandatory for some organizations, including publicly listed companies. • If approved by Parliament, the legislation would require around 200 large Financial Markets Conduct reporting entities to start making climate-related disclosures for financial years commencing in 2022, with disclosures being made in 2023 at the earliest. • Reporting would be against a standard that would be issued by the External Reporting Board. The standard would be developed in line with the recommendations of the TCFD.

³⁷ ASIC, "Managing climate risk for directors" (February 2021), online: <<https://asic.gov.au/about-asic/news-centre/articles/managing-climate-risk-for-directors/>>.

Jurisdiction	Summary of Initiative
Switzerland	- In January 2021, the Swiss Federal Council (the Council) became a formal supporter of the TCFD. During 2021, the Council is working towards proposals to make the TCFD Recommendations binding. In the interim, the Council has requested that these recommendations are implemented on a voluntary basis by Swiss companies from all sectors of the economy.³⁸ - In November 2020, the Swiss Financial Market Supervisory Authority (FINMA) announced a public consultation with respect to proposed amendments applicable to banks and insurance companies to increase transparency regarding climate change risks in the financial system, based on the TCFD recommendations.³⁹ The approach taken by FINMA is based on the TCFD recommendations. The consultation period closed in January 2021.

6. Other Noteworthy International Developments

There are a number of other international initiatives and developments in this area that demonstrate the growing international support from governments for enhanced climate-related disclosures, including disclosures that are consistent with the TCFD recommendations. We have summarized a few noteworthy initiatives below.

G7 and G20

In June 2021, the G7 Finance Ministers and Central Bank Governors, comprised of Canada, France, Germany, Italy, Japan, the United Kingdom, the United States and the European Union, announced their support through a Communiqué, for mandatory climate-related financial disclosures that are based on the TCFD framework. The Communiqué noted, “Investors need high quality, comparable and reliable information on climate risks. We therefore agree on the need for a baseline global reporting standard for sustainability, which jurisdictions can further supplement.”⁴⁰ The G7 also noted its support for the IFRS Foundation’s work towards developing standards built from the TCFD framework and the work of sustainability standard-setters. A Communiqué on behalf of a meeting of the G20 Finance Ministers and Central Bank Governors in July 2021 welcomed the work of the IFRS Foundation to develop a global reporting standard and stated that they would work to promote implementation of disclosure requirements or guidance, building on the TCFD “to pave the way for future global coordination efforts, taking into account jurisdictions’ circumstances, aimed at developing a baseline global reporting standard.”⁴¹

³⁸ Swiss Federal Council, “Switzerland promotes transparency on climate-related financial risks” (January 12, 2021), online: <<https://www.admin.ch/gov/en/start/documentation/media-releases.msg-id-81924.html>>.

³⁹ FINMA, “Transparency obligations for climate risks – FINMA opens consultation” (November 10, 2020), online: <<https://www.finma.ch/en/news/2020/11/20201110-mm-transparenzpflichten-klimarisiken/>>.

⁴⁰ UK Government, “G7 Finance Ministers and Central Bank Governors Communiqué” (June 5, 2021), online: <<https://www.gov.uk/government/publications/g7-finance-ministers-meeting-june-2021-communication/g7-finance-ministers-and-central-bank-governors-communication>>.

⁴¹ G20, Third Finance Ministers and Central Bank Governors meeting Communiqué (July 9-10, 2021), online: <<https://www.g20.org/wp-content/uploads/2021/07/Communique-Third-G20-FMBCG-meeting-9-10-July-2021.pdf>>.

G20 Sustainable Finance Study Group

The G20 Sustainable Finance Study Group (**SFSG**) was re-established by the Italian G20 Presidency within the G20 Finance track (the group was originally established in 2016). The SFSG will begin by developing a multi-year climate-focused sustainable finance G20 roadmap in specific priority areas that can be adapted or expanded in future years to cover other topics.

Financial Stability Board Workstreams and Roadmap

In a letter published on July 7, 2021, the FSB Chair, Randal K. Quarles, stated that the FSB's work to promote consistent, comparable and high-quality disclosures builds on its role as sponsor of the TCFD, and that work being done by the IFRS Foundation and IOSCO on establishing a global baseline standard for such disclosures would not preclude authorities from going further or at a faster pace in their jurisdictions.⁴² The FSB also published three climate-related reports: (1) *FSB Roadmap for Addressing Climate-Related Financial Risks*; (2) *The Availability of Data with Which to Monitor and Assess Climate-Related Risks to Financial Stability*; and (3) *Report on Promoting Climate-Related Disclosures*, in which the FSB called for an acceleration of progress in the implementation of climate-related disclosures, using a framework based on the TCFD recommendations, in line with jurisdictions' regulatory and legal requirements.⁴³

World Economic Forum

The International Business Council of the World Economic Forum published a white paper in September 2020, setting out expanded metrics for sustainability reporting. Companies are encouraged to report against as many of the core and expanded metrics as they find material and appropriate, on the basis of a "disclose or explain" approach.

⁴² Financial Stability Board, "FSB Chair presents a comprehensive roadmap for addressing climate-related financial risks" (July 7, 2021), online: < <https://www.fsb.org/2021/07/fsb-chair-presents-a-comprehensive-roadmap-for-addressing-climate-related-financial-risks/>>.

⁴³ Financial Stability Board, *Report on Promoting Climate-Related Disclosures* (July 7, 2021), online: < <https://www.fsb.org/wp-content/uploads/P070721-4.pdf>>.

ANNEX G

LOCAL MATTERS

ONTARIO SECURITIES COMMISSION

1. Introduction

This Annex to the accompanying CSA Notice and Request for Comments (the **CSA Notice**) sets out matters required to be addressed by the *Securities Act* (Ontario) (the **Act**). The Ontario Securities Commission (the **Commission** or **we**) is publishing this Annex to supplement the CSA Notice.

The CSA Proposed Amendments

The CSA are publishing for comment proposed National Instrument 51-107 *Disclosure of Climate-related Matters* (the **Proposed Instrument**) and its companion policy for a 90-day comment period. The Proposed Instrument would introduce disclosure requirements regarding climate-related matters for reporting issuers (other than investment funds, issuers of asset-backed securities, designated foreign issuers, SEC foreign issuers, certain exchangeable security issuers and certain credit support issuers).

We expect the Proposed Instrument to

- improve issuer access to global capital markets by aligning Canadian disclosure standards with expectations of international investors;
- assist investors in making more informed investment decisions by enhancing climate-related disclosures;
- promote an “equal playing field” for all issuers through comparable and consistent disclosure; and
- potentially reduce excess costs associated with navigating and reporting to multiple disclosure frameworks as well as reducing market fragmentation.

Please refer to the main body of the CSA Notice.

2. Local Amendments

There are no proposed amendments to any Commission rules in connection with the Proposed Instrument.

3. Regulatory Impact Analysis

Section 1 – Background

7. Since the publication of CSA Staff Notice 51-358 *Reporting of Climate Change-related Risks* in August 2019, the CSA has continued to follow developments in relation to climate-related disclosure, including conducting research on domestic and international developments in this area and an issue-oriented review of recent climate-related disclosure by Canadian reporting

issuers.⁴⁴ The CSA have noted concerns about current climate-related disclosures, including the fact that issuers' climate-related disclosures may not be complete, consistent, and comparable, and quantitative information is often limited.

The Proposed Instrument would introduce disclosure requirements regarding climate-related matters for reporting issuers. The CSA believe that the climate-related disclosure requirements contained in the Proposed Instrument would provide clarity to issuers on the information required to be disclosed and also facilitate consistency and comparability among issuers.

Section 2 – Rationale for intervention

Climate change will have deep and lasting impacts on Canada's environment, economy and society. The impact of shifting weather patterns, higher temperatures and extreme weather events is already evident in many parts of Canada. Studies show that past and future warming in Canada is approximately double the magnitude of global warming⁴⁵ and climate change imposes increasing economic costs on Canada (Warren & Lulham, 2021). Estimating the economic impact of climate change is a complex undertaking, due in part to uncertainties around how future social and economic systems will evolve, the extent of future climate change, the biophysical impacts of such change and the monetary value of those impacts.

In 2011, the National Round Table on the Environment and the Economy (NRTEE) estimated that climate change costs for Canada could increase from roughly \$5 billion per year in 2020 to between \$21 billion and \$43 billion per year by the 2050s (NRTEE, 2011). The Canadian Institute for Climate Choices (CICC) estimates that combined losses from extreme weather events have increased from an average of \$8.3 million in the 1970s to an average of \$112 million between 2010 and 2019 (CICC, 2020). Over that period, insurance payouts for catastrophic losses from natural disasters exceeded \$1 billion per year in nine of the ten years. By way of comparison, insurable payouts averaged \$400 million per year between 1984 and 2010. (IBC, 2020).

Climate-related risks fall into two major categories:

- Physical risks – Economic and financial losses resulting from the increasing severity and frequency of extreme weather events, longer-term gradual shifts of the climate (for example, changes in precipitation, extreme weather variability) and indirect impacts of climate change such as loss of ecosystem services (for example, desertification and water shortage) (BCBS, 2021).
- Transition risks – The risks related to the process of adjustment towards a low-carbon economy⁴⁶ (policy and legal risks, litigation/legal risk, technology risk, market risk and

⁴⁴ Other notable developments include the Capital Markets Modernization Taskforce's recommendation to mandate climate change-related disclosure that is compliant with the TCFD recommendations for issuers through regulatory filing requirements of the OSC and the 2021 Ontario Budget announcement that the OSC would begin policy work to inform further consultations on ESG disclosure.

⁴⁵ Canada is warming faster than the rest of the world due to certain local conditions, including a loss of snow and sea ice that is reducing the reflectivity of the surface and increasing the absorption of solar radiation (Warren & Lulham, 2021).

⁴⁶ Molina (2019) highlights the financial stability implications of a late and abrupt transition to a low-carbon economy, noting the potential for sudden repricing of climate-related risks and stranded assets and the negative impact on the balance sheets of financial market participants.

reputational risk). Transition risks are of particular significance for Canada given its endowment of carbon-intensive commodities and the current importance of carbon-intensive sectors for the Canadian economy (Molico, 2019).⁴⁷

Corporate disclosure is critical for the functioning of efficient capital markets because inadequate information about risks can lead to mispricing of assets and misallocation of capital (TCFD, 2017). As climate-related risks grow over time, investors seek greater transparency about how listed issuers may be impacted by climate change. Investors realize that transitioning to a low carbon economy will disrupt economic sectors and industries and that this presents both threats and opportunities. Global investment in ESG assets is expected to exceed \$53 trillion by 2025, representing approximately 38% of projected total assets under management (Bloomberg, 2021).

The Proposed Instrument would provide clarity to issuers on climate-related disclosures, thereby facilitating consistency and comparability among issuers and fostering more accurate pricing of risk (and ultimately more efficient allocation of capital).

Section 3 – Proposed intervention

Current securities legislation in Canada requires disclosure of certain climate-related information in an issuer's regulatory filings, if such information is material. Please refer to the CSA Notice for an overview of existing requirements that currently apply to the disclosure of climate-related risks and risk management and oversight.

The Proposed Instrument would apply to all reporting issuers, other than investment funds, issuers of asset-backed securities, designated foreign issuers, SEC foreign issuers, certain exchangeable security issuers and certain credit support issuers.

The Proposed Instrument would require issuers to disclose certain climate-related information in compliance with the TCFD recommendations (subject to certain modifications discussed in the CSA Notice). The specific disclosure requirements are set out in Part 2 of the Proposed Instrument and contemplate disclosure related to the four core TCFD recommendations:

- governance,
- strategy,
- risk management, and
- metrics and targets.

The Proposed Instrument modifies the TCFD recommendations relating to scenario analysis and GHG emissions.

⁴⁷ Canada has the third largest per-capita natural resource endowment in the world, accounting for 1.82 million jobs and contributing to 17% of the country's Gross Domestic Product (NRCan, 2018).

Table 1: Proposed disclosure requirements under NI 51-107

Core element in TCFD recommendations	Related disclosure requirements in the Proposed Instrument
Governance Disclose the organization’s governance around climate-related risks and opportunities	Reporting issuers would be required to describe the following: • the board’s oversight of climate-related risks and opportunities • management’s role in assessing and managing climate-related risks and opportunities
Strategy Disclose the actual and potential impacts of climate-related risks and opportunities on the organization’s businesses, strategy, and financial planning where such information is material	Reporting issuers would be required to describe the following, where such information is material: • the climate-related risks and opportunities the issuer has identified over the short, medium, and long term • the impact of climate-related risks and opportunities on the issuer’s businesses, strategy, and financial planning
Risk management Disclose how the organization identifies, assesses, and manages climate-related risks	Reporting issuers would be required to describe the following: • the issuer’s processes for identifying and assessing climate-related risks • the issuer’s processes for managing climate-related risks • how processes for identifying, assessing, and managing climate-related risks are integrated into the issuer’s overall risk management
Metrics and targets Disclose the metrics and targets used to assess and manage relevant climate-related risks and opportunities where such information is material	Reporting issuers would be required to disclose: • the metrics used by the issuer to assess climate-related risks and opportunities in line with its strategy and risk management process where such information is material • Scope 1, Scope 2, and Scope 3 GHG emissions, and the related risks or the

Core element in TCFD recommendations	Related disclosure requirements in the Proposed Instrument
	issuer's reasons for not disclosing this information. The CSA is also consulting on an alternative approach, which would require issuers to disclose Scope 1 GHG emissions. the targets used by the issuer to manage climate-related risks and opportunities and performance against targets where such information is material

Section 4 – Stakeholders impacted by the Proposed Instrument

i. Preparers of climate-related disclosures

The Proposed Instrument would apply to approximately 3400 non-investment fund reporting issuers. Approximately 2,972 these issuers are listed on the Toronto Stock Exchange (TSX), TSX Venture Exchange (TSX-V), Canadian Securities Exchange (CSE) and Neo Exchange (NEO)⁴⁸. Table 2 sets out the number of non-investment fund reporting issuers listed on these exchanges as at May 31, 2021.

Table 2: Number of non-investment fund reporting issuers by recognized exchange

Exchange	Total	Small Cap	Medium Cap	Large Cap
TSX	778	194 (24.9%)	187 (24.0%)	397 (51.0%)
TSX-V	1659	1509 (91.0%)	125 (7.5%)	25 (1.5%)
CSE	519	481 (92.7%)	21 (4.0%)	17 (3.3%)
NEO	16	11 (68.8%)	3 (18.8%)	2 (12.5%)

Large Cap (greater than \$500M), Medium Cap (between \$150M and \$500M), Small cap (less than \$150M)

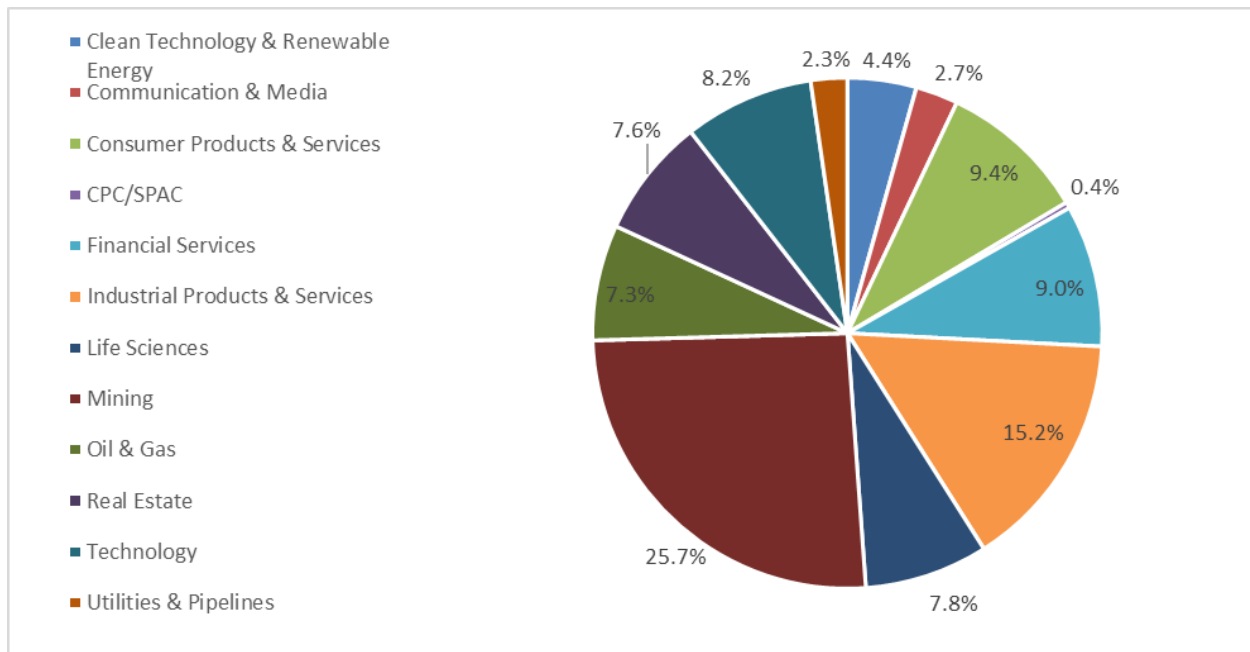
Sources: TSX Market Statistics; S&P Capital IQ; Neo Exchange

A number of studies⁴⁹ have shown that the current state of climate-related disclosure varies by industry. Figures 1-4 provide industry snapshots for each recognized exchange. Mining is the leading sector in terms of number of issuers listed on the TSX, TSX-V and NEO. The materials sector leads the CSE in terms of number of listed issuers.

⁴⁸ The remaining 428 issuers are reporting issuers in Ontario that are listed on other exchanges or that are unlisted.

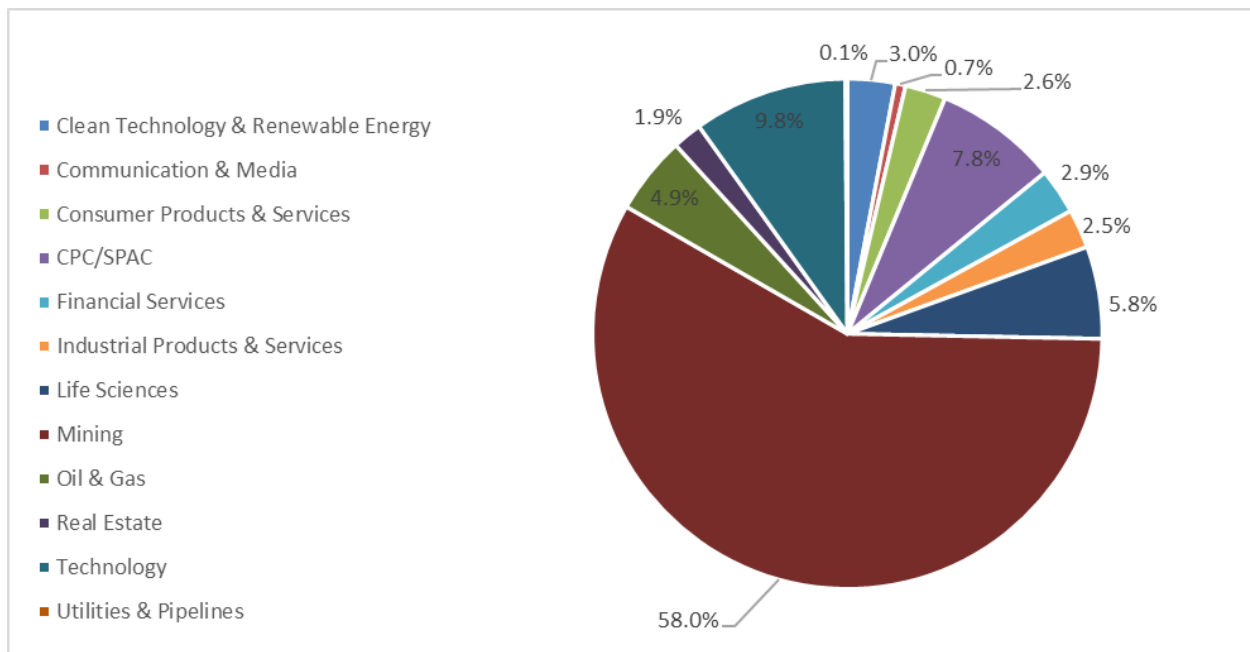
⁴⁹ CPA Canada (2017), CPA Canada (2021), TCFD (2019), TCFD (2020), Millani (2021).

Figure 1: TSX Industry Overview



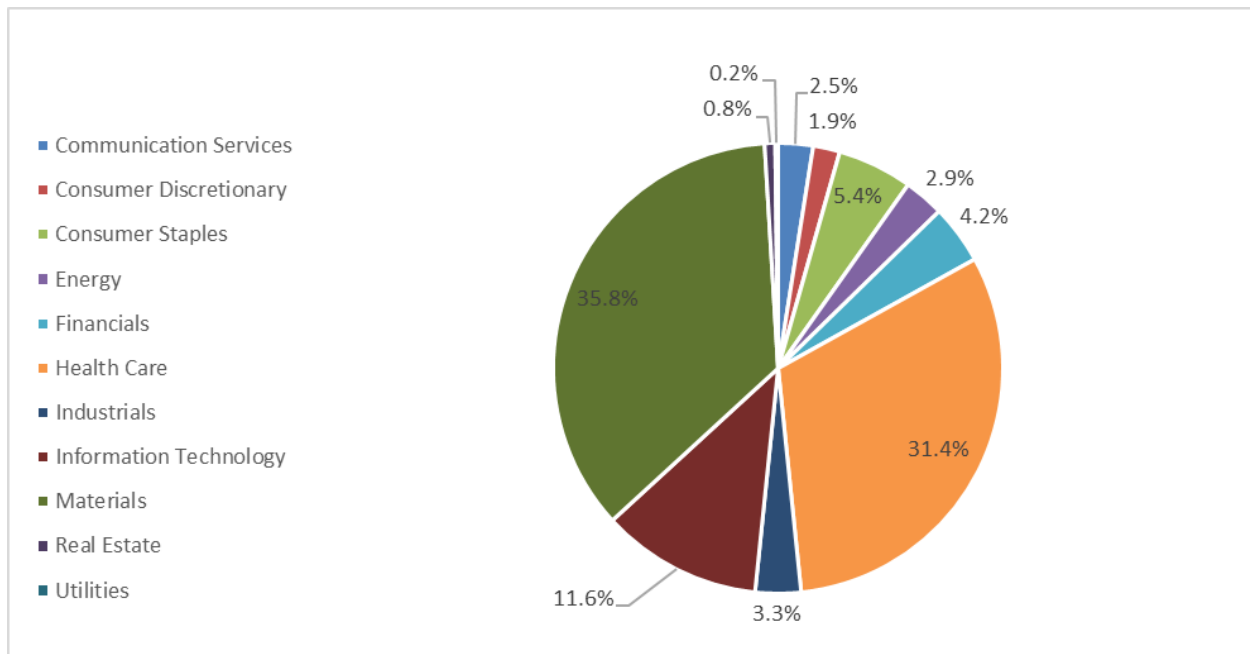
Percentages based on the number of reporting issuers
Sources: TSX Market Statistics (May 2021)

Figure 2: TSX-V Industry Overview



Percentages based on the number of reporting issuers
Source: TSX Market Statistics (May 2021)

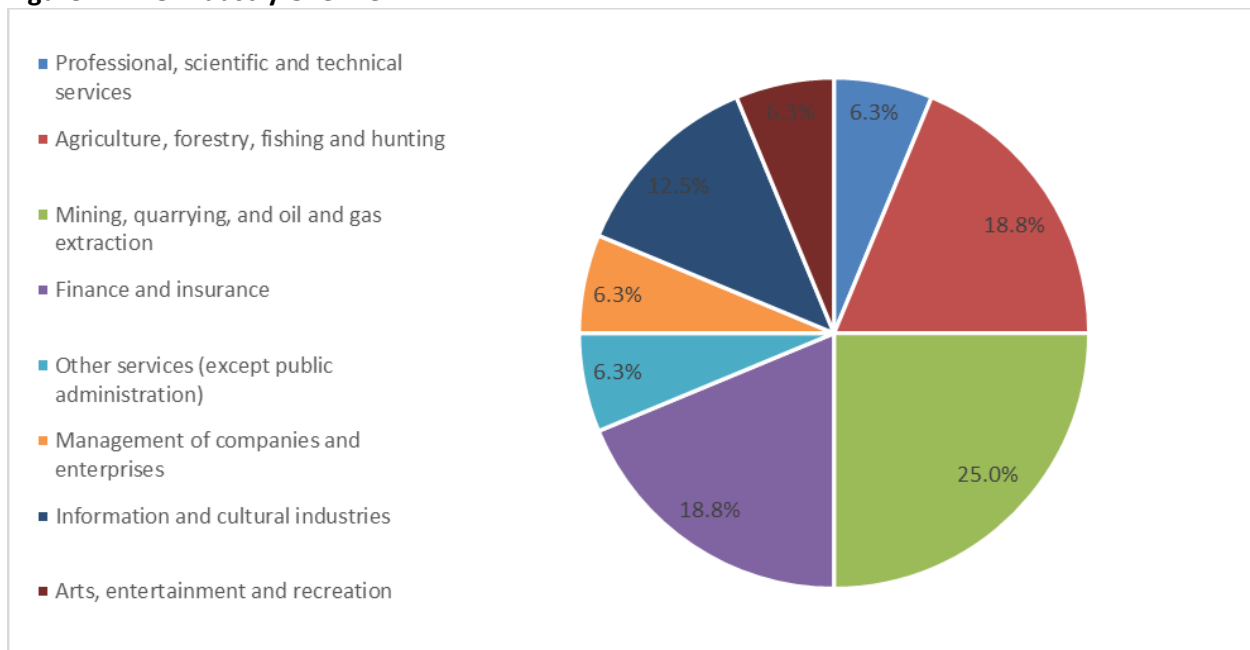
Figure 3: CSE Industry Overview



Percentages based on the number of reporting issuers

Source: S&P Capital IQ (May 2021)

Figure 4: NEO Industry Overview



Percentages based on the number of reporting issuers

Source: NEO (May 2021)

The Proposed Instrument contemplates a phased-in transition of the disclosure requirements of one year for non-venture issuers and three years for venture issuers. Specifically, non-venture issuers would need to start providing the disclosures the financial year beginning on or after January 1 of the first year after the effective date of the Proposed Instrument, while venture issuers would need to start providing the disclosures the financial year beginning on or after January 1 of the third year after the effective date of the proposed instrument. The sectors with the highest percentage of issuers implementing after the three-year transition period are mining and technology. Table 3 provides additional detail on the number of TSX and TSX-V reporting issuers by industry.

Table 3: Number of TSX and TSX-V reporting issuers and market capitalization by sector

Sector	TSX Issuers	TSX-V Issuers	TSX Market Cap (\$M)	TSX-V Market Cap (\$M)
Clean Technology & Renewable Energy	34	50	\$80,431	\$4,145
Communication & Media	21	11	\$220,621	\$1,548
Consumer Products & Services	73	43	\$282,602	\$2,463
CPC/SPAC	3	130	\$658	\$206
Financial Services	70	48	\$1,017,696	\$6,836
Industrial Products & Services	118	41	\$458,790	\$1,594
Life Sciences	61	97	\$47,913	\$5,671
Mining	200	962	\$529,412	\$53,471
Oil & Gas	57	82	\$204,483	\$4,938
Real Estate	59	31	\$117,365	\$2,974
Technology	64	162	\$341,109	\$16,099
Utilities & Pipelines	18	2	\$290,333	\$119
Total	778	1659	\$3,591,413	\$100,064

Sources: TSX Market Statistics (May 2021)

Current state of climate-related disclosures

A number of studies shed light on current disclosure practices as they relate to the TCFD recommendations. An emerging theme is that, although the percentage of issuers disclosing some climate-related information is increasing, issuers are generally not disclosing decision-useful climate-related disclosures.

a. TCFD Status Update Reports

The TCFD published status reports in 2019 and 2020 on the state of climate-related financial disclosures aligned with the TCFD recommendations by issuers across the globe. The 2019 and 2020 status reports provided an overview of disclosures by 163 and 779 North American issuers in 2018 and 2019, respectively.

Table 4: Disclosure by TCFD Recommendation (North America)

Recommendation	Recommended Disclosure	2018 Reporting	2019 Reporting
Governance	a) Board Oversight	20%	18%
	b) Management's Role	21%	20%
Strategy	a) Risks and Opportunities	51%	50%
	b) Impact on Organization	40%	25%
	c) Resilience of strategy	7%	4%
Risk Management	a) Risk ID and Assessment Process	26%	15%
	b) Risk Management Processes	33%	15%
	c) Integration into Overall Risk Management	8%	10%
Metrics and Targets	a) Climate-related Metrics	38%	25%
	b) Scope 1, 2, 3 GHG Emissions	37%	14%
	c) Climate-related targets	33%	27%

Results are not directly comparable due to the different number of issuers included in the reviews

Source: TCFD 2019 & 2020 Status Reports

Some key takeaways from the TCFD status reports:

- Disclosure of climate-related information has increased but improvements to disclosure of financial impacts are still needed.
- Larger issuers more likely to disclose information aligned with the recommendations⁵⁰
- Disclosures are 4 times more likely to be made in sustainability reports than in financial filings or annual reports.
- North American issuers had the highest level of disclosures relating to strategy (a) – Risks and Opportunities.
- The level of disclosure is dependent on industry. Reviewed issuers in the Energy and Materials & Buildings sectors take the lead in disclosure.

⁵⁰ 42% of the reviewed issuers with market cap of greater than \$10 billion disclosed information aligned with the TCFD recommendations. On the other hand, 15% of reviewed issuers with market cap of less than \$2.8 billion made similar disclosures (TCFD 2020).

b. CSA 2021 Climate-related Disclosures Issue Oriented Review

The detailed results from the issue-oriented review of 48 issuers selected primarily from the S&P/TSX Composite Index are presented in Appendix D of the Notice and Request for Comments. Key takeaways from the review include:

- 92% of the reviewed issuers disclosed climate-related risks in their MD&A and/or AIF, while the remaining issuers disclosed no climate-related risks.
- The most commonly disclosed climate-related risks were regulatory and policy risks, which were disclosed by 83% of the issuers reviewed.
- The quality of risk disclosure varied depending on the risk disclosed, with regulatory and policy risks generally being the most detailed and entity specific.
- Only two issuers disclosed the effects of climate-related matters in their financial statements.
- 40% of issuers, primarily from the energy industry, disclosed entity specific opportunities related to climate change within their CD filings.
- 82% of issuers who provided voluntary climate-related disclosures disclosed GHG emissions in their voluntary reporting.

c. Millani TCFD Disclosure Study: A Canadian Perspective

The results from the issue-oriented review are supplemented by a June 2021 study that examines the extent to which the S&P/TSX Composite Index constituents aligns with the TCFD recommendations. The study found that 23% of the 228 companies included in the index provided a clear statement that their disclosures were aligned with the TCFD recommendations and another 14% expressed a desire to align with the recommendations in the future. Some observations from the study:

- Large cap issuers with market cap greater than \$10B represent 75% of the issuers already reporting disclosures aligned with the TCFD recommendations and 60% of issuers intending to report in the future.
- Location of disclosures varies, with 33% of disclosing issuers publishing standalone reports, 56% integrating the recommended disclosures in ESG or Sustainability Reports, 11% making the disclosures on their websites, in CDP disclosures or in regulatory filings.
- The two sectors with issuers most likely to already disclose, or planning to disclose, are the Extractives & Minerals Processing sector (59%) and the Financials sector (40%).
- 50% of issuers with TCFD-aligned disclosures report Scope 3 emissions.
- Reviewed issuers in the following sectors did not make any TCFD-aligned disclosures: Health Care, Renewable Energy Resources & Alternative Energy, and Services.

These and other studies⁵¹ show that the current state of climate-related disclosure is highly dependent on industry, issuer size and the recommended disclosure. We note that the studies focused only on TSX-listed issuers. We are not aware of any comprehensive studies of climate-related disclosures by issuers on the other recognized exchanges.

⁵¹ CPA Canada published two studies on climate-related disclosures by TSX-listed issuers in 2016 and 2019. The Global Risk Institute in Financial Services published a progress report on climate-related financial disclosures in the Canadian financial sector over three reporting cycles (2017, 2018, 2019).

Current reporting of GHG emissions

Environment and Climate Change Canada's (ECCC) Greenhouse Gas Reporting Program (GHGRP) requires Canadian facilities⁵² with annual GHG emissions of 10 kt of carbon dioxide equivalent (CO₂ eq.) or higher to report to the program. We estimate that 62 of the 733 entities that reported their GHG emissions to ECCC in 2019 are reporting issuers. Although the majority of reporting issuers do not appear to meet the 10kt reporting threshold, and thus are not required to report to the program, we assume that they have to calculate their GHG emissions in order to determine whether they should report to the program. An April 2021 study by the Institute for Sustainable Finance assessed the current state of Canadian corporate disclosure of GHG emissions by the S&P/TSX Composite Index constituents. The study found that 150 of the 222 reviewed issuers provide GHG emissions disclosures and that these issuers tend to be larger, comprising approximately 88% of the market cap of the index (ISF, 2021).

ii. Users of climate-related disclosures

a. Institutional Investors

The World Bank estimates that limiting the rise in global temperatures to 1.5°C will require between \$1.6 trillion to \$3.8 trillion in mitigation costs and \$180 billion in adaptation costs (World Bank, 2020).⁵³ Institutional investors are an important potential source of financing for the investments needed to meet global climate goals.

Climate change creates significant opportunities for institutional investors with approximately \$2.1 trillion in potential global "green" investment opportunities. Climate change also poses a significant risk because failure to act could mean a loss of \$10.7 trillion triggered by the materialization of transition, physical and regulatory risks (World Bank, 2020).⁵⁴ Due to the systemic nature of climate risk, investors cannot fully mitigate the risk by switching between sectors. The Proposed Instrument would facilitate consistency and comparability in disclosures and allow investors to more accurately assess and price risk and support informed, efficient capital allocation decision making.

i. Pension Funds

Global pension assets amounted to an estimated \$44.1 trillion in 2018, representing the second-largest source of institutional capital globally after mutual funds (World Bank, 2020). There were 16,608 registered pension plans in Canada in 2019 with approximately \$2.8 trillion USD in pension assets (Statistics Canada, 2021; OECD, 2019). While all pension systems will face material risks resulting from climate change, some pension systems are more vulnerable than others. The Pension Climate Risk

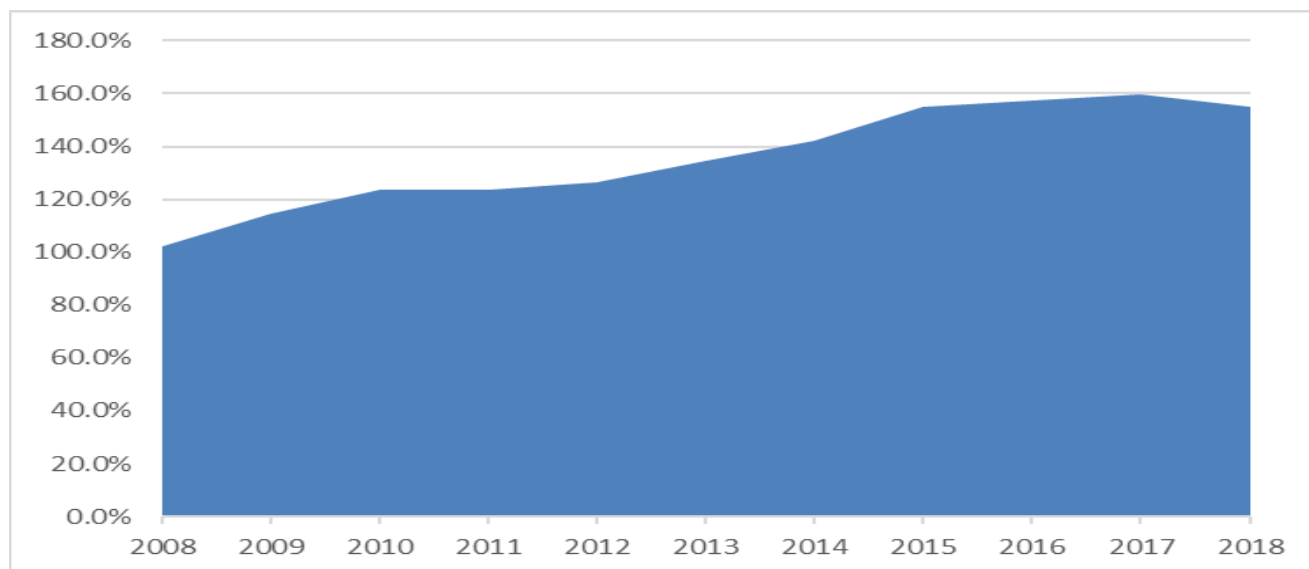
⁵² A facility is defined as an integrated facility, pipeline transportation system, or offshore installation. An integrated facility is defined as all buildings, equipment, structures, on-site transportation machinery, and stationary items that are located on a single site, on multiple sites or between multiple sites that are owned or operated by the same person or persons and that function as a single integrated site, excluding public roads. Facilities in Alberta accounted for the largest share of reported emissions, with approximately 54% of the total, followed by facilities in Ontario (15%) (ECCC, 2021).

⁵³ The European Environmental Agency defines adaptation as the process of anticipating the adverse effects of climate change and taking appropriate action to prevent or minimise the damage they can cause, or taking advantage of opportunities that may arise. Mitigation, on the other hand, is the process of making the impacts of climate change less severe by preventing or reducing the emission of GHG into the atmosphere.

⁵⁴ The TCFD estimated that the value at risk to the total global stock of manageable assets ranges between \$4.2 and \$43 trillion between now and the end of the century (TCFD, 2017).

Heatmap calculates measure of climate risk for 71 countries, including Canada. One component used to assess the climate risk is the pension assets-to-GDP ratio (World Bank, 2020).⁵⁵ Figure 5 highlights the steady increase in Canadian pension assets as a percentage of GDP since 2008⁵⁶.

Figure 5: Canadian pension assets as percentage of GDP



Pension assets defined as total assets in funded and private pension plans (OECD, 2019).

The pension systems in Canada and other high-income countries like the United Kingdom, Australia and the United States are classified as medium to high risk due to the relative size of their pension fund assets. Although these jurisdictions may be well-placed to adapt to climate change challenges, the potential material risk to their pension fund assets is significant (World Bank, 2020). On May 21, 2021, the Canada Climate Law Initiative released a legal opinion concluding that pension fund trustees have obligations to consider climate change as part of their fiduciary duties (CCLI, 2021).

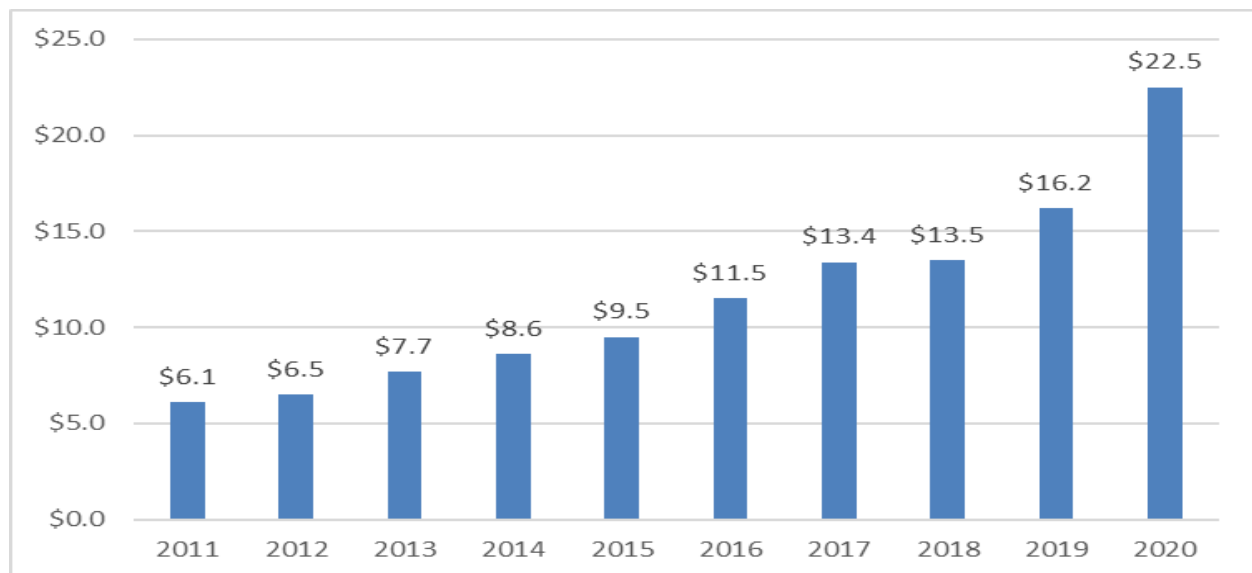
ii. Investment fund managers

The International Investment Funds Association (IIFA) estimates that \$64.63 trillion USD was invested in global regulated open-end fund assets at the end of the first quarter of 2021 (IIFA, 2021). Global assets in dedicated ESG mutual funds and exchange-traded funds (ETFs) surpassed \$1.3 trillion USD in June 2020, more than twice the amount of five years ago (Broadridge, 2020). Figure 6 shows that ESG assets in Canada have grown rapidly since 2011 because of increased demand from both retail and institutional investors. ESG assets saw sales of \$2.2 billion CAD in 2020, accounting for 13.8% of beginning net assets and marking the fastest-growing year on record.

⁵⁵ The other two components are the percentage of pension assets held domestically and a composite measure based on data from the Notre Dame Global Adaptation Index (World Bank, 2020).

⁵⁶ Pension assets exceed GDP in 8 out of 36 OECD countries (OECD, 2019).

Figure 6: ESG Assets in Canada(\$Billions)⁵⁷



Data as at December in each year (Investor Economics, 2021)

A 2020 survey of more than 100 asset managers and asset owners by the Responsible Investment Association (RIA) asked respondents to cite which ESG factors they incorporate into their investment decisions. Climate change and climate-related concerns dominated the list of environmental factors that investors are considering.⁵⁸ Respondents indicated that the TCFD framework is the most commonly used ESG framework in their investment analysis, followed by the United Nations' Sustainable Development Goals and Sustainability Accounting Standards Board.

Finally, when asked what they saw as the major deterrents to growth in responsible investing (RI), respondents ranked "Lack of legislative/regulatory requirements third after "Lack of reliable data" and "Mistrust/concerns about greenwashing"⁵⁹ (RIA, 2020).

b. Retail investors

A 2018 RIA investor opinion survey of a sample of 800 Canadian investors examined individual Canadian investors' attitudes towards responsible investment (RI)⁶⁰. Respondents indicated that environmental issues are the most important factor among Environmental, Social, and Governance issues. Some other key findings from the opinion survey included:

- Investor opinion reflects geographic difference, with respondents in Ontario and British Columbia being the most concerned about climate change and the environment.

⁵⁷ The number of ESG funds also increased from 86 to 146 and net flows grew from -\$143 million to \$2.2 billion over the same period. (Investor Economics, February 2021).

⁵⁸ Climate change mitigation was the most cited factor, while climate change adaptation ranked third (RIA, 2020).

⁵⁹ "Greenwashing usually refers to practices aimed to mislead investors or to give them a false impression about how well an investment is aligned with its sustainability goals" (IOSCO 2020).

⁶⁰ RI is an umbrella term that includes several different strategies. ESG integration is the most prominent RI strategy in Canada, followed by shareholder engagement (RIA, 2020).

- 73% of respondents believed it's likely that climate change will create risks for the global economy within five years. The percentage increases to 81% over a twenty-year horizon.
- 70% of respondents believe climate change will have negative financial impacts on companies in some industries in the next five years; this number rises to 79% over the next twenty years.
- 66% of respondents would like a portion of their portfolio to be invested in companies providing solutions to climate change and environmental challenges (RIA, 2018).

Retail investors' interest in RI assets has increased in recent years, with retail ownership of RI assets increasing from 20% in 2017 to 28% in 2019 (RIA, 2020).

c. Insurance companies

Insurers⁶¹ play a critical role in the assessment and pricing of risk and have to manage climate-related risks on both sides of the balance sheet. They directly contribute to adaptation⁶² through their underwriting activities and help manage the economic impacts of climate change by covering economic losses due to natural catastrophes. Insurers also play a significant role in raising their client's awareness of climate risk and helping them implement preventive measures. Insurers will continue to play an essential role in enhancing the economic resilience of societies as providers of risk transfer solutions (GFIA, 2021).

d. Credit rating agencies (CRAs)

CRAs assess the financial strength of corporate and government entities and their ability to meet principal and interest payments on their debt.⁶³ They are gatekeepers of the bond market and give investors and lenders a better understanding of an entity's credit risk. As such, they are able to affect the flow of significant amounts of capital. Although many credit rating agencies have started to incorporate climate risk into their credit considerations, the standard credit risk rating horizon is 3-5 years. Assessing climate risks requires a longer-term perspective. Studies have shown that an adequate assessment of climate risks requires a ratings horizon of 15 years (Woodall, 2020).

e. Audit firms

Audit firms are required to identify and assess the risks of material misstatement of financial statements. Currently, the majority of climate-related information is disclosed outside the audited financial statements (for example, in corporate social responsibility reporting). The climate-related governance disclosures specified by the Proposed Instrument would be included in a reporting issuer's management information circular (or in the issuer's annual information form (AIF) or its annual MD&A, if the issuer does not file an AIF). The climate-related disclosures related to strategy, risk management and metrics and targets specified by the Proposed Instrument would be included in the reporting issuer's

⁶¹ As at May 31, 2021, there are approximately 148 property & casualty insurers and 63 life insurance companies regulated by the Office of the Superintendent of Financial Institutions (OSFI). In general, OSFI conducts prudential reviews of the federally regulated insurers to determine their financial soundness, while the provinces regulate the licensing of insurers operating within their jurisdictions as well as the marketing of insurance products.

⁶² Adaptation is the process of anticipating the adverse effects of climate change and taking appropriate action to prevent or minimize the damage they can cause.

⁶³ There are four designated ratings agencies under applicable securities law: DBRS Limited, Fitch, Inc., Moody's Canada Inc., and Standard & Poor's Rating Services (Canada).

AIF, or its annual MD&A, if the issuer does not file an AIF. Although the proposed disclosures would not be made in the audited financial statements, auditors may have responsibility in relation to such information in accordance with Canadian Audit Standard 720 *The Auditor's Responsibility Relating to Other Information* (CPA Canada, 2021).

Section 5 – Anticipated Benefits

a. Benefits of the proposed climate-related disclosures for investors

i. Reduced information asymmetry and more efficient allocation of capital

Information asymmetry describes situations where one party has more or better information relevant to an investment decision than the other party. Financial markets are an area where the problems of potential or actual asymmetric information are pervasive. Given the threat climate risk poses to financial markets, asymmetric information regarding current and future climate risks is an impediment to the assessment and pricing of climate-related risks and opportunities. The TCFD maintains that the recommended climate-related disclosures would support more appropriate pricing of risks. For this to be true, there should be some evidence of climate risk mispricing in financial and other markets.

In April 2020, the International Monetary Fund (IMF) assessed the response of equity markets to past extreme weather events and concluded that climate change physical risk does not appear to be reflected in global equity valuations (IMF, 2020). There is also evidence of mispricing in agricultural markets, municipal bonds, commercial real estate, and stocks of electric utilities. (Hong, Li & Xu, 2019; BlackRock, 2020).⁶⁴ To the extent that climate risk mispricing can be observed in the market, the disclosures in the Proposed Instrument should contribute to the better pricing of risk by reducing the information asymmetry between issuers, investors and other stakeholders.

ii. ESG creates value for shareholders

Given the current lack of comparable climate-related risk disclosures across issuers, there are not many studies of the impact of these disclosures on financial markets. A 2013 joint study⁶⁵ by CDP⁶⁶ and Sustainable Insight Capital Management found that “industry leadership on climate engagement is linked to higher performance on three financial metrics that reflect overall corporate quality: return on equity, cash flow stability and dividend growth”. If we expand the analysis to ESG investing in general, there is a relatively long history of studies of the

⁶⁴ Hong et. al (2019) compared long-term drought forecasts across publicly traded food companies and found that the market had failed to efficiently incorporate drought impacts on profits into stock prices. BlackRock (2020) found that similar municipal bonds located in climate-sensitive and non-climate-sensitive areas did not reveal significant differences in valuation.

⁶⁵ The joint study analyzed corporate reporting to CDP from 2008 to 2012 by 702 companies totaling \$25 trillion in market capitalization.

⁶⁶ CDP is a non-profit charity that runs the global disclosure system used by investors, companies, cities, states and regions to manage their environmental impacts. CDP requests and reports on the climate-related risks and opportunities of the largest companies in the world on behalf of over 590 institutional investors with a combined \$110 trillion USD in assets.

importance of ESG investing for long-term shareholder value creation. Studies have shown that issuers with a strong ESG proposition, and the accompanying ESG disclosures, can create value. A 2015 meta-study that aggregated the existing evidence from around 2200 empirical studies performed between 1970 and 2014 concluded that around 90% of the reviewed academic papers in the study sample revealed improved financial performances of companies with better sustainability practices (Friede, Busch & Bassen, 2015).

Investors responding to the 2018 RIA investor opinion survey appear to share the same view. 71% of respondents agreed that companies with good ESG practices are better long-term investments (RIA, 2018).

iii. Helps to maintain financial stability

The transition to a low carbon economy will require significant and disruptive changes across economic sectors and industries, with implications for the global financial systems. Climate risk can result in direct financial risks, resulting in a reassessment of asset values, changes to the cost or availability of credit, or affecting the timing or reliability of cash flows.

A late and abrupt transition to a low-carbon economy that leads to a sudden repricing of climate-related risks and stranded assets could negatively affect the balance sheets of financial market participants, with potential consequences to financial stability. Given the Canadian economy's reliance on carbon-intensive activities, it's financial system could be particularly vulnerable to transition risks under some adverse scenarios (Molico, 2019). Without sufficient disclosure of climate risk, widespread mispricing could lead the economy towards a "climate bubble" (Condon et. al, 2021). Improved climate risk disclosures should facilitate an orderly transition to a low carbon economy and help to maintain the stability of financial markets.

iv. Ensure comparability of disclosures and facilitates informed investment decision making

Corporate disclosure is critical for the functioning of an efficient capital market. Information and incentive problems impede the efficient allocation of resources in a capital market economy and investors need access to consistent and comparable information to accurately assess climate-related risks and opportunities across different issuers. The Proposed Instrument will provide clarity to issuers on the required climate-related disclosures, thereby facilitating consistency and comparability among issuers and, ultimately, the efficient allocation of capital. Comparable disclosures also foster competition between issuers from a capital-raising perspective.

b. Benefits of the proposed climate-related disclosures for issuers

i. Better understanding of the exposure of the issuer's operations to climate-related risks

Issuers that report climate-related information can directly benefit from providing quality disclosure to their stakeholders. The proposed disclosures will encourage issuers to engage in careful and systematic analyses of their exposures to climate risk, resulting in an improved ability to:

- Identify, assess, manage, and adapt to the effects of climate change on operations, supply chains and customer demand.
- Relay risk and opportunity information to capital providers, investors, markets and regulators.
- Learn from competitors about climate-related strategy.⁶⁷

ii. Lower cost of capital and increased access to global markets

There is empirical evidence that climate vulnerability increases the cost of sovereign borrowing. Kling, Volz, Murinde & Ayas (2021) found that vulnerability to climate risks, as measured by the Notre Dame Global Adaptation Initiative (ND-GAIN) sub-indices for climate sensitivity, has increased cost of debt by 1.17% on average for climate vulnerable developing countries over the last decade. The same appears to be true for issuers in countries with greater exposure to climate risk. Kling et. al (2021) also found that these issuers face higher financing costs and are financially more constrained. Chava (2014) found that investors require higher expected returns from companies that are less concerned about climate change. To the extent that climate-related disclosures encourage issuers to reduce climate vulnerability, their efforts to do so should result in a lower cost of capital.⁶⁸

As networks of institutional investors⁶⁹ continue to coordinate their efforts to advocate for improved climate risk disclosures, issuers may find that TFC-aligned disclosures are a minimum requirement for consideration by institutional investors. Canadian issuers compete for capital on a global stage. Climate change is reshaping the comparative advantage of regions across the globe. The ND-GAIN Country Index summarizes a country's vulnerability to climate change and other global challenges in combination with its readiness to improve resilience. Canada is ranked the 12th least vulnerable country and the 19th most ready country (ND-GAIN Country Index, 2021)⁷⁰. The proposed disclosures would allow Canadian issuers with significant Canadian operations to highlight the country's position relative to other regions, thereby increasing access to capital and facilitating capital formation.

iii. Clarity about regulatory expectations

There are significant costs associated with producing climate-related disclosures. In the past, issuers making these disclosures allocated significant resources to determining exactly what information should be provided to investors. The Proposed Instrument provides clarity regarding regulatory expectations and will reduce the time issuers spend, and costs associated with, producing climate-related disclosures.

⁶⁷ Under the proposed transition measures, TSX-V issuers will have a three-year transition phase and may benefit from the disclosures from TSX-listed issuers.

⁶⁸ Cost of capital refers to a weighted average cost of debt and cost of equity.

⁶⁹ For example, the Ceres Investor Network on Climate Risk and Sustainability represents 180 financial institutions across North America with more than USD\$30 trillion in assets under management. Climate Action 100+ represents approximately 500 institutional investors with more than USD\$50 trillion in AUM.

⁷⁰ By way of comparison, the US is the 26th least vulnerable country and the 18th most ready country. Mexico is the 82nd least vulnerable country and the 85th least ready country.

Section 6 – Anticipated Costs

a. Costs of the proposed climate-related disclosures to investors

i. Time spent becoming familiar with the new disclosures

As discussed above, corporate disclosure is a commonly used regulatory tool to address information asymmetry between issuers and investors. In order to be effective, the disclosures should convey the required information in a way that can be easily understood by investors, provide decision support and help investors make decisions aligned with their interests (Hung, Gong & Burke, 2015). While both retail and institutional investors increasingly demand disclosure of climate-related risks and opportunities, they have different capacity to understand what is relatively complex information. The average retail investor may lack the basic financial literacy to understand the disclosures and this is further compounded by the fact that the disclosures will be made in different documents depending on the whether an issuer files an information circular or AIF.

Results from the 2018 RIA Investor opinion survey found that there is a gap between investor interest in RI and their knowledge of RI. Although 71% of respondents agreed that companies with good ESG performance are better long-term investments, 81% of respondents reported knowing little or nothing at all about RI. Some retail investors will rely on financial advisors to review the disclosures.⁷¹ Others will conduct their own due diligence concerning an issuer's climate-related risks and opportunities. In either case, financial advisors and investors will need time to learning about the unique terminology associated with climate-related disclosures so that this information can be incorporated into the investment decision-making process.

ii. Increased volume of disclosures may prove distracting and ineffective in providing decision-useful and price-informative data

Corporate disclosure reforms aimed at increasing disclosures are generally based on the assumption that market participants are perfectly rational and that more information is better. Simon (1955) highlighted the fact that people are boundedly rational and have limited cognitive abilities to process information.⁷² To the extent that investors, analysts, and other market participants are subject to information overload, the assumption that more disclosure is better might be flawed. Some institutional investors have suggested that issuers “are starting to provide more data and climate and social metrics than is useful for investors.”⁷³ Studies have shown that this may not be a widespread concern. Harper Ho (2019) studied whether ESG risk disclosure presents under- or over-disclosure and concluded that the concern about disclosure overload of investors is overblown and investors are more likely to be concerned about under-disclosure than information overload.⁷⁴

⁷¹ 86% of respondents agreed that financial advisors and institutions should be knowledgeable about how ESG risks could affect their investments and 81% would like their financial services provider to inform them about responsible investments that are aligned with their values (RIA, 2018).

⁷² In other words, when faced with complicated tasks, people tend to “satisfice” rather than “optimize,” and might fail to search and process certain information (Herman, 1955).

⁷³ Schwartzkopff, Frances. “Goldman Laments ‘Noise’ of ESG Data Barrage Amid New Rules”. Bloomberg. May 21, 2021.

⁷⁴ Business advocates, on the other hand, were more inclined to voice concern about disclosure overload (Harper Ho, 2019).

b. Costs of the proposed climate-related disclosures to issuers

i. Potential competitive or economic costs of disclosing proprietary information

The proposed transition measures are intended to address the fact that not all issuers are at the same stage of implementation readiness and that emerging issuers listed on the TSX-V and other junior exchanges may not have sufficient resources to implement the proposed disclosure requirements at the same time as senior issuers listed on the TSX. This effectively means that issuers in the same industry will face different disclosure requirements until the end of the transition phase and TSX issuers will likely face higher implementation costs than TSX-V listed issuers who may benefit from observing the approach taken by TSX issuers and their disclosures about climate-related risks and opportunities.

ii. Initial and ongoing compliance costs

Estimating compliance costs begins with establishing a baseline against which to estimate the incremental costs associated with a proposed regulatory intervention. It is difficult to estimate the initial and ongoing compliance costs on a per issuer basis because there is no representative issuer on which to base assessments of implementation readiness. As discussed previously, studies have shown that current disclosure of climate-related risks is a function of market capitalization, industry, the regions in which the issuer operates and the specific disclosure requirement.⁷⁵ For example, we can reasonably assume that a large cap TSX-listed issuer in the financial services sector is more likely to already be making (or planning to make) TCFD-aligned disclosures than a small issuer in the health sector.⁷⁶

Estimating implementation costs is further complicated by the fact that “business-as-usual” costs are not included in cost estimates. This means that the costs incurred by issuers who previously opted to adopt the TCFD recommendations on a voluntary basis would not be included unless they related to the proposed modifications of the TCFD disclosures. This means that the implementation costs incurred by the large cap TSX-listed issuer described above would not be included in estimates of the incremental costs associated with the implementation of the Proposed Instrument.

We anticipate that most impacted issuers will incur initial and ongoing compliance costs but the range of costs will likely vary greatly depending on a number of variables. While we have a general understanding of the sectors most likely to incur higher implementation costs, we do not have sufficient information on the required resources to implement the recommended disclosures on a per firm basis. This is especially true for issuers listed on the TSX-V, CSE and NEO exchanges as there are no comprehensive studies of the current state of reporting as of the publication date. We anticipate that a greater percentage of venture issuers will incur compliance costs compared to non-venture issuers.⁷⁷ Conversely, we anticipate that non-venture issuers will incur higher compliance costs on a per issuer basis because of the shorter transition period and potentially more complex operations.

⁷⁵ See CPA Canada (2017), CPA Canada (2020), TCFD (2017), TCFD (2019), Global Risk Institute in Financial Services (2020), Millani (2021).

⁷⁶ See Millani (2021).

⁷⁷ Millani (2021) found that 23% of the S&P/TSX Composite Index constituents already report TCFD-aligned disclosures and another 14% expressed a desire to do so in the future. We do not know the percentage of remaining TSX issuers that already report TCFD-aligned disclosures or that intend to do so in the future.

The CSA is also consulting on an alternative approach to the disclosure of GHG emissions that would require issuers to disclose Scope 1 GHG emissions. Under this alternative, disclosure of Scope 2 and Scope 3 GHG emissions would not be mandatory. Issuers must disclose either their Scope 2 and 3 GHG emissions and the related risks, or the issuer's reasons for not disclosing this information. We anticipate that this alternative approach would have a significant impact on compliance costs, particularly for smaller issuers who are less likely to currently report on GHG emissions. Reporting issuers that currently disclose their GHG emissions on a voluntary basis could also incur additional costs (for example, costs associated with third-party verification of estimated GHG emissions).⁷⁸

We welcome input from issuers who have voluntarily adopted the TCFD recommendations on their experiences and the costs incurred as this will inform future efforts to estimate total implementation costs.

Section 7 – Risks and Uncertainties

i. Rate of graduation of TSX-V issuers to TSX

The TSX-V is a marketplace that allows emerging issuers to raise the capital necessary to develop and market their products. Many companies listed on TSX-V eventually grow to meet the listing requirements of the TSX and make a strategic decision to graduate to the TSX. Approximately 600 companies have graduated from the TSX-V to the TSX since 2000.⁷⁹ The benefits of graduation include increased access to capital, access to institutional capital and enhanced liquidity in global markets⁸⁰ and greater coverage by research analysts (TSX website).

The Proposed Instrument contemplates a phased-in transition of the disclosure requirements of one year for non-venture issuers and three years for venture issuers. The proposed transition measures may impact the rate that TSX-V issuers graduate to the TSX with implications for the competitive landscape.⁸¹ TSX-V issuers wishing to migrate to the TSX before the end of the three-year transition period will need to weigh the costs associated with early adoption of the recommended disclosures and the benefits of graduating to the TSX.

⁷⁸ Investors looking to estimate the current carbon intensity of their portfolios may begin to require third-party verification of estimated GHG emissions. The Institute for Sustainable Finance found that only 29% of TSX issuers that disclose emissions get a third-party to verify their disclosures but that these issuers' emissions count for the vast majority of reported emissions (ISF, 2021).

⁷⁹ These graduates represent approximately \$200 Billion of TSX market capitalization and 20% of issuers in the S&P Composite Index.

⁸⁰ It is estimated that approximately 40% of all trading on the TSX comes from outside of Canada.

⁸¹ TSX-V issuers that opt to graduate to the TSX within the contemplated three-year transition period would likely face higher implementation costs than their non-graduating counterparts.

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4. Rule-making Authority

The following provisions of the Act provide the Commission with the authority to adopt the Proposed Instrument:

- Paragraph 143(1)22 authorizes the Commission to prescribe requirements in respect of the preparation and dissemination and other use, by reporting issuers, of documents providing for continuous disclosure that are in addition to the requirements under the Act, including requirements in respect of an annual report, an AIF and supplemental analysis of financial statements.
- Paragraph 143(1)39 authorizes the Commission to make rules requiring or respecting the media, format, preparation, form, content, execution, certification, dissemination and other use, filing and review of all documents required under or governed by the Act, the regulations or the rules and all documents determined by the regulations or the rules to be ancillary to the documents, including financial statements.
- Paragraph 143(1)39.1 authorizes the Commission to make rules governing the approval of any document described in paragraph 39.