THE INVESTMENT FUNDS INSTITUTE OF CANADA | L'INSTITUT DES FONDS D'INVESTISSEMENT DU CANADA

IFIC Submission

Re: CSA Request for Comment - Proposed National Instrument 51-107, Disclosure of Climate-related Matters

January 17, 2022

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

The Secretary
Ontario Securities Commission
20 Queen Street West
22nd Floor
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Me Philippe Lebel
Corporate Secretary and Executive Director, Legal Affairs
Autorité des marchés financiers
Place de la Cité, tour Cominar
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Québec (Québec) G1V 5C1

Dear Sirs and Mesdames:

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

IFIC is the voice of Canada's investment funds industry. IFIC brings together approximately 150 organizations, including fund managers, distributors and industry service organizations, to foster a strong, stable investment sector where investors can realize their financial goals. IFIC operates on a governance framework that gathers member input through working committees. The recommendations of the working committees are submitted to the IFIC Board or board-level committees for direction and approval. This process results in a submission that reflects the input and direction of a broad range of IFIC members.

IFIC is generally supportive of the Proposed Instrument and the requirement that an issuer disclose certain climate-related information largely in compliance with the Task Force on Climate-related Financial Disclosures (TCFD) recommendations. As noted in the Consultation, the TCFD recommendations are globally used and respected and meet investor needs for concise, standardized metrics on material climate-related issues. Currently, issuers' climate-related disclosures are not sufficiently complete, consistent, or comparable and quantitative information is often limited and, most often, provided on a voluntary basis.

Investment managers require high quality consistent and comparable climate-related information from reporting issuers to inform investment decision-making. Climate-related information is used by investment managers to assess investment risks and opportunities of individual securities and to guide corporate engagement and proxy voting activities. Also, climate-related information is critical for understanding how climate change is impacting individual companies and how the activity of individual companies is in turn affecting climate change and the resulting environmental, economic and investment landscape.

Furthermore, investment managers require climate-related information from the issuers they are invested in to monitor their own climate-related impacts and, in many cases, performance against carbon-reduction goals. For investment managers, in most cases, the impact or potential impact on climate change comes more through the impact of their investments or underlying portfolio holdings than through direct emissions.

Finally, investment managers are serving investors, both institutional and retail, who increasingly have climate-related investment objectives. High-quality information and data are critical to be able to ensure alignment between investment objectives and investments.

IFIC is also supportive of the disclosure requirements as set out in the Proposed Instrument with respect to the sections on Governance, Strategy, and Risk Management. With respect to Metrics and Targets, IFIC supports mandatory emissions reporting. Specifically, the CSA Instrument should mandate Scope 1 and Scope 2 emissions data. Given the importance of Scope 3 emissions, or indirect emissions, IFIC recommends that the CSA require issuers to report this data or to explain the reasons for not disclosing this information.

It will still be the case that certain investment managers require additional climate-related disclosure from issuers beyond what is contemplated in the Proposed Instrument. However, IFIC believes that mandatory reporting of governance, strategy, risk management and emissions data will provide a solid base of information whereby investment managers will be able to effectively manage their obligations.

Responses to detailed questions relating to investors and investment managers are provided in Appendix A (attached).

* * * * *

IFIC appreciates this opportunity to provide our input to the CSA on this important initiative. Please feel free to contact me by email at ibragg@ific.ca or by phone at 416-309-2325. I would be pleased to provide further information or answer any questions you may have.

Yours sincerely,

THE INVESTMENT FUNDS INSTITUTE OF CANADA

By: Ian Bragg
Vice-President, Research & Statistics

APPENDIX A

Note: IFIC Responses are highlighted in grey

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?

   Response: Scenario analysis is an important aspect of climate-related disclosure and investment managers would benefit from this aspect of reporting. However, IFIC is cognizant of the complexities and challenges inherent in scenario analysis and the uneven use of this information by investment managers. As such, we agree that while this should not be mandated at this time it is a practice that should be encouraged as access to data improves and scenario analysis is better understood. As articulated in answer to Question 9, the priority for mandatory reporting should focus on Scope 1 and Scope 2 emissions reporting, and associated targets, and the disclosure requirements as set out in the Proposed Instrument with respect to Governance, Strategy, and Risk Management.

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?

     Response: As articulated in answer to Question 9, the CSA Instrument should mandate disclosure of Scope 1 and Scope 2 emissions data.

   - 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?

     Response: As articulated in answer to Question 9, the CSA Instrument should mandate disclosure of Scope 1 and Scope 2 emissions data.

   - Should disclosure of Scope 2 GHG emissions and Scope 3 GHG emissions be mandatory?

     Response: As articulated in answer to Question 9, the CSA Instrument should mandate disclosure of Scope 1 and Scope 2 emissions data.

     Given the importance of Scope 3 emissions, or indirect emissions, IFIC recommends that the CSA require issuers to report this data or to explain the reasons for not disclosing this information. Indirect emission make up a large portion of some companies' total emissions and are therefore important to investment managers. Issuers should be encouraged to disclose Scope 3 emissions and work towards ensuring such data is comprehensive in coverage, accurate, and comparable

     However, IFIC is aware of the complexities and nascent stage of some of the methodologies and definitions required for Scope 3 emissions data.

   - 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?

     Response: As articulated in response to Question 9, investment managers require high quality consistent and comparable climate-related information from reporting issuers to inform investment decision-making. This is best achievable if issuers are using the same reporting standard. Currently, the GHG Protocol is the world's most widely used greenhouse gas accounting standard. It the most commonly used by existing issuer's that report comprehensive detailed GHG emissions data and there is an infrastructure of support for reporting issuers. The CSA should strongly encourage issuers use only the GHG Protocol reporting standard.

   - 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?

     Response: See above.

   - 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?

     Response: See above.

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?

   Response: As articulated in response to Question 9, investment managers require high quality consistent and comparable climate-related information from reporting issuers to inform investment decision-making. To provide assurance of the disclosure's completeness, accuracy and truthfulness, this information should be encouraged for inclusion in regulatory filings (AIFs, MD&As) and therefore subject to claims of liability.

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?

   Response: IFIC believe that reporting in regulatory filings (AIFs, MD&As) or reference therein would provide the necessary legal and liability framework for complete, accurate and truthful reporting.

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?

   Response: Investment managers require high quality consistent and comparable climate-related information from reporting issuers to inform investment decision-making. Climate-related information is used by investment managers to assess investment risks and opportunities of individual securities and to guide corporate engagement and proxy voting activities. Also, climate-related information is critical for understanding how climate change is impacting individual companies and how the activity of individual companies is affecting climate change and the resulting environmental, economic and investment landscape.

   Furthermore, investment managers require climate-related information from the issuers they are invested in to monitor their own climate-related impacts and, in many cases, performance, against carbon-reduction goals. For investment managers, in most cases, the impact or potential impact on climate change comes more through the impact of their investments or underlying portfolio holdings than through direct emissions.

Finally, investment managers are serving investors, both institutional and retail, who increasingly have climate-related investment objectives. High-quality information and data are critical to be able to ensure alignment between investment objectives and investments.

Currently, issuers' climate-related disclosures are not sufficiently complete, consistent, or comparable and quantitative information is often limited and, most often, provided on a voluntary basis. Also, climate-related reporting is not usually integrated into companies' regulatory documents.

IFIC supports the Proposed Instrument and the requirement that an issuer disclose certain climate-related information largely in compliance with the Task Force on Climate-related Financial Disclosures (TCFD) recommendations. As noted in the Consultation, the TCFD recommendations are globally used and respected and meet investor needs for concise, standardized metrics on material climate-related issues.

IFIC is supportive of the disclosure requirements as set out in the Proposed Instrument with respect to the sections on Governance, Strategy, and Risk Management.

With respect to Metrics and Targets, IFIC supports mandatory emissions reporting. Required emissions reporting is required to provide the necessary information for investment managers to fulfill their obligations as described above.

Specifically, the CSA Instrument should mandate Scope 1 and Scope 2 emissions data. Given the importance of Scope 3 emissions, or indirect emissions, IFIC recommends that the CSA require issuers to report this data or to explain the reasons for not disclosing this information. Indirect emission make up a large portion of some companies' total emissions and are therefore important to investment managers.

However, IFIC is aware of the complexities and nascent stage of some of the methodologies and definitions required for Scope 3 emissions data. For this reason, we support the partial disclosure of Scope 3 emissions, where issuers may disclose Scope 3 emissions to the extent to which they have data on their Scope 3 emissions.

It will still be the case that certain investment managers require additional climate-related disclosure from issuers beyond what is contemplated in the Proposed Instrument. However, IFIC believes that mandatory reporting of governance, strategy, risk management and emissions data will provide a solid base of information whereby investment managers will be able to effectively manage their obligations.

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?

    Response: See the answer to Question 9, above.

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?