July 18, 2017

Me Louis Morisset,
President and Chief Executive Officer, Autorité des marchés financiers
Chair, Canadian Securities Administrators

Mr. Don Murray,
Chair of The Manitoba Securities Commission
Vice-Chair, Canadian Securities Administrators

Dear Me Morisset and Mr. Murray;

Re: Canadian Securities Administrators' Climate Change Disclosure Review Project

We recently brought together a group of large Canadian institutional investors to meet with the Ontario Securities Commission and the Alberta Securities Commission to provide input into the Canadian Securities Administrators' (CSA) consultation on climate change disclosures. We appreciated the opportunity for a frank discussion of the ways investors are using climate-related disclosures and what we need to better assess and mitigate climate-related risks in our portfolios.

Addenda Capital Inc. is a privately owned investment management firm responsible for investing more than $27 billion in assets for pension funds, insurance companies, foundations, endowment funds and third party mutual funds of major financial institutions. We are proud to be part of The Co-operators group - a leading Canadian multi-product insurance and financial services co-operative.

The Shareholder Association for Research & Education (SHARE) is a Canadian leader in responsible investment services, research and education. We work with a growing network of institutional investors helping them to become active owners and develop and implement responsible investment policies and practices. SHARE provides responsible investment services to over 30 leading Canadian institutional investors with more than $14 billion in assets under management. Our shareholder engagement, proxy voting and consulting clients include pension funds, foundations, religious institutions, asset managers, universities and mutual funds.

We are writing to summarize some of the points that were raised at that meeting and to provide additional commentary and details to assist the CSA in its consideration of appropriate disclosures and the role of securities regulators in encouraging those disclosures.

1. Climate-related information is material for reasonable investors

Issuers are required by law to disclose information that is material. As the CSA wrote in *Staff Notice 51-333: Environmental Reporting Guidance,*

> *Information relating to environmental matters is likely material if 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.*

There is no bright-line test for materiality. The type of information that may be considered material varies by industry, by company, by time horizons, and by other factors. The CSA Staff Notice rightly concluded in its guiding principles for determining materiality that, "If there is any doubt about whether particular information is material, we encourage issuers to err on the side of materiality and disclose the information."

There is ample evidence that reasonable investors in Canadian companies think climate-related information is material insofar as it influences their investment decisions:

> "Climate change is one of the largest challenges of our time. It has impact on the value of our investments and, conversely, our investment decisions impact the climate."
>
> Else Bos, Chief Executive Officer, PGGM N.V.
> (Assets under management of CAD 289 billion as of 2016-12-31)[1]

> "We apply a thoughtful and long-term oriented approach to our investment activities, including the consideration of risks and opportunities related to climate change and its potential impact on asset values, markets and economies."
>
> Mark Machin, President & Chief Executive Officer, Canada Pension Plan Investment Board
> (Assets under management of CAD 317 billion as of 2017-03-31)[2]

> "As an investor, Norges Bank Investment Management analyses opportunities and risks to our investments. We encourage companies to be transparent about the topics raised in this document. We use such information to identify how climate change may affect companies' economic performance and prospects, and to assess whether management is taking relevant steps to develop a long-term business strategy for a transition to a low-emissions economy."
>
> Norges Bank Investment Management
> (Assets under management of CAD 1,245 billion as of 2017-03-31)[3]

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[1] Task Force on Climate-Related Financial Disclosures. (2017-06-29). *Statement of Support for the TCFD Recommendations and Supportive Quotes (June 2017)*. Retrieved from https://www.fsb-tcfd.org/publications/final-tcfd-recommendations-report-statement-support-june-2017/
[2] Canada Pension Plan Investment Board. (2016-10-18). *2016 Report on Sustainable Investing*. Retrieved from http://www.cppib.com/documents/4/Sustainable_Investing_2016.pdf
[3] Norges Bank Investment Management. (2015-03-13). *Climate Change Strategy: Expectations Towards Companies.* Retrieved from https://www.nbim.no/contentassets/e3f8e013de754cad905b686bdb50f76a/climate-change-expectations-updated.pdf

"We consider climate change impacts alongside other risks when evaluating the risk-return tradeoff of an investment. Climate change can hurt financial returns through severe physical risks to business, such as extreme weather, as well as through regulatory risks and uncertainty."

Ontario Teachers' Pension Plan
(Assets under management of CAD 176 billion as of 2016-12-31)[4]

"AIMCo is committed to addressing climate risk across our portfolios in alignment with our Responsible Investment Pillars by integrating consideration of an asset's climate risk and resiliency into our investment decision-making"

Alberta Investment Management Corporation
(Assets under management of CAD 96 billion as of 2016-12-31)[5]

In 2016, la Caisse, "[a]nalyzed and integrated a company's carbon emissions, when the data was available, into the ESG profiles for investments in the portfolio."

La Caisse de dépôt et placement du Québec
(Assets under management of CAD 271 billion as of 2016-12-31)[6]

In addition, some service providers have also indicated that climate-related information is material. For example:

"We think this type of disclosure will be especially useful to investors in assessing the risks and opportunities associated with the transition to a lower-carbon future."

HSBC Global Research[7]

"Additional visibility into the potential financial effects of different warming and emissions scenarios would provide credit analysis with a toolkit to evaluate the potential impact on creditworthiness."

Moody's Investors Services[8]

2. Current reporting regulations are not sufficient to address the specific question of climate-change-related risks and opportunities

Continuous disclosure requirements should have already resulted in disclosure of climate change risks and opportunities that are material.

Yet, as organizations that regularly review disclosures from Canadian issuers, we find that with some notable exceptions, there is little company-specific disclosure in regulatory filings about environmental matters and about climate change in particular, despite the CSA Staff guidance. This, in spite of mounting evidence that the physical, legal, reputational, market and other transition risks associated with climate change will be substantial. Further, where it is

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[4] Ontario Teachers' Pension Plan. (date unknown). *Climate change*. Retrieved from https://www.otpp.com/investments/responsible-investing/perspectives/climate-change
[5] Alberta Investment Management Corporation. (2016-09-28). *Responsible Investment Report 2016*. Retrieved from http://www.aimco.alberta.ca/DesktopModules/AIMCoWhitepaper/Whitepapers/AIMCo-InteractivePDF.pdf
[6] La Caisse de dépôt et placement du Québec. (2017-04-25). *2016 Annual Report*. Retrieved from https://www.cdpq.com/sites/default/files/medias/pdf/en/ra/ra2016_rapport_annuel_en.pdf#page=73
[7] HSBC Global Research. (2017-06-30). C*limate Investment Update*.
[8] Moody's Investors Services. (2017-06-29). *Environmental Risks and Developments: FSB Task Force Recommendations will lead to a Mainstreaming of Climate Disclosure Over Time.*

present, there is little consistency in the form or content of disclosures which undermines the ability of investors to utilise this information in fundamental analyses.

A recent report from a Chartered Professional Accountants of Canada (CPA Canada) study of climate-related disclosures provided by 75 TSX-listed companies (representing 78% of the market capitalization of the S&P/TSX Composite Index) in their securities filings highlights in inadequacy of issuer reporting.[9] The key findings of the report include:

> "Less than one third of companies made specific disclosure of board or senior management oversight of climate-related issues."
>
> "Few companies provid[e] a meaningful analysis demonstrating the actual and expected impacts of climate-related developments on financial results and the company's business, operations and strategy"
>
> "Most climate-related disclosures did not provide sufficient context for users to understand the relative significance of existing and potential business, risk-management and financial implications relative to past performance, company targets or industry peers"
>
> "Only one quarter of companies disclosed proactive strategies to deal with the transition to a low-carbon economy."
>
> "No companies disclosed the implications of limiting global warming to two degrees Celsius in alignment with global commitments under the Paris Agreement."

SHARE recently evaluated public disclosures from 39 companies in the S&P/TSX Energy Index and 13 companies in the S&P/TSX Utilities Index to determine how boards are disclosing risks related to climate change and the extent to which they are overseeing those risks. Although 92 per cent of those companies, including all but one energy company, mentioned regulatory risks related to climate change in their reporting, there was limited disclosure around other types of climate-related risks. For instance, only two companies referred to risk of litigation and there was little mention of physical risks or transition (stranded asset) risk.[10]

3. Specific climate-related disclosure requirements in regulatory filings are necessary and warranted

In the words of the Bank of Canada, "climate change itself and actions to address it will have material and pervasive effects on Canada's economy and financial system."[11] From a physical perspective, the Intergovernmental Panel on Climate Change (IPCC) has documented many observed changes in the climate system, for which anthropogenic drivers are the dominant

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[9] Chartered Professional Accountants of Canada. (2017-04-22). State of Play: Study of Climate-Related Disclosures by Canadian Public Companies. Retrieved from https://www.cpacanada.ca/-/media/site/business-and-accounting-resources/docs/g10218-rg-state-of-play-study-climate-related-disclosures-report-june-2017.pdf

[10] http://share.ca/documents/investor_briefs/Environment/2017/Board_Climate_Competency_Report_Final.pdf

[11] Bank of Canada. (2017-03-02). *Thermometer Rising – Climate Change and Canada's Economic Future*. Retrieved from http://www.bankofcanada.ca/2017/03/thermometer-rising-climate-change-canada-economic-future/

cause.[12] The IPCC has also highlighted that many aspects of climate change and associated impacts will continue to occur for centuries and that without sufficient mitigation efforts, there is a, "high to very high risk of severe, widespread and irreversible impacts globally."

Global efforts to mitigate the impacts of climate change culminated in the Paris Agreement. After two decades of failed attempts, a global and historic climate agreement was approved unanimously by 195 countries in December 2015. The agreement aims to keep global warming well below 2 degrees Celsius, but also to pursue efforts to limit the temperature increase to 1.5 degrees, which would significantly reduce the risks and impacts of climate change. The estimated greenhouse emission reductions required to achieve these ambitious targets are significant and will significantly alter the global economy as we transition to a low-carbon economy.

In Canada, the federal government's Intended Nationally Determined Contribution is to, "achieve an economy-wide target to reduce its greenhouse gas emissions by 30% below 2005 levels by 2030."[13] Canada's Mid-Century Long-Term Low-Greenhouse Gas Development Strategy discusses a pathway consistent with reducing greenhouse gas emissions by 80% below 2005 levels by 2050.[14] Such a significant reduction will require, "a fundamental restructuring of multiple sectors of the economy." For instance, "the electrification of end use applications that are currently using fossil fuels is fundamental."

Investor and issuer understanding of the scope of risks and opportunities related to climate change is evolving, and the regulatory environment should evolve with it. Given the overwhelming evidence that climate change and related actions will materially alter Canada's economy, it is clear that climate change is sufficiently important to warrant specific disclosure obligations beyond the disclosure obligations regarding material information that individual issuers must adhere to.

The most important step securities regulators can take is to set out requirements for issuers to disclose to investors how they are assessing climate-change-related risks and opportunities. Through specific disclosure requirements, securities administrators have an opportunity to help market participants understand that climate change is a material issue and in so doing, could help, "to foster fair and efficient capital markets and confidence in capital markets", which is one of the purposes of the Securities Act of Ontario.

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[12] IPCC. (2014). *Climate Change 2014: Synthesis Report. Contribution of Working Groups I, II and III to the Fifth Assessment Report of the Intergovernmental Panel on Climate Change* [Core Writing Team, R.K. Pachauri and L.A. Meyer (eds.)].
[13] Canada. (2015-05-15). *Intended Nationally Determined Contribution – Canada.* Retrieved from http://www4.unfccc.int/Submissions/INDC/Published%20Documents/Canada/1/INDC%20-%20Canada%20-%20English.pdf
[14] Canada. (2016-11-17). Canada's Mid-Century Long-Term Low-Greenhouse Gas Development Strategy. Retrieved from http://unfccc.int/files/focus/long-term_strategies/application/pdf/can_low-ghg_strategy_red.pdf

5. The TCFD recommendations are the best starting point for disclosure obligations

The Financial Stability Board's Task Force on Climate-Related Financial Disclosures (TCFD) released its final report on June 29, 2017. We believe that the TCFD recommendations are the best starting point for considering disclosure obligations.

The TCFD recommendations provide a clear and logical framework for CSA to adopt with strong backing from the global financial community. We expect these recommendations to be highly influential and to help to streamline and harmonize regulatory and voluntary frameworks around the world.

Specifically, following the TCFD framework, we urge CSA to require reporting issuers to disclose the following in their annual regulatory filings:

a) The board's oversight of climate-related risks and opportunities.
b) Management's role in assessing and managing climate-related risks and opportunities.
c) The organization's processes for identifying and assessing climate-related risks.
d) How processes for identifying, assessing, and managing climate-related risks are integrated into the organization's overall risk management.
e) The climate-related risks and opportunities the organization has identified over the short, medium, and long term.

For investors, these initial disclosures provide assurance that the issuer's board and management have assessed the climate-change-related risks and opportunities that are relevant to their business in a substantial manner. This not only informs shareholders that the company has developed specific oversight capabilities, but also serves as a proxy for assessment of the issuer's overall risk management capabilities, which is an important consideration in making investment decisions. Management effectiveness is commonly assessed as part of the investment research process.

If a reporting issuer identifies material climate-related risks and/or opportunities, it should be required, using a "comply or explain" model, to disclose the following:

a) The impact of climate-related risks and opportunities on the organization's businesses, strategy, and financial planning.
b) The resilience of the organization's strategy, taking into consideration different scenarios, including a 2°C scenario, on the organization's businesses, strategy, and financial planning.
c) The organization's processes for managing climate-related risks.
d) The metrics used by the organization to assess climate-related risks and opportunities in line with its strategy and risk management process.

e) The targets used by the organization to manage climate-related risks and opportunities and performance against targets.

Importantly, these disclosures do not supplant the issuer's responsibility for determining materiality. They merely require that the issuer establish an adequate process to make that determination, and if material risks or opportunities are identified, to report (on a "comply or explain" basis) the steps being taken to manage those risks or opportunities.

6. Additional disclosures

The company's greenhouse gas (GHG) emissions will not necessarily be considered material by most issuers, other than in instances where carbon pricing mechanisms impose, or might be reasonably expected to impose, a significant cost on the company that cannot otherwise be transferred to the customer. However, an issuer's GHG emissions *are* relevant to investors.

As noted above, institutional investors are concerned not only with the performance of one asset but of their portfolio as a whole. This poses a difficulty for investors where the externalities of one asset become the internalities of another. Climate change poses a classic example. Where one issuer is extremely inefficient and emits a large quantity of GHGs and thereby contributes to climate change, an institution's investments in other assets (e.g. real estate, farmland, insurance companies) may suffer the consequences.

Further, investment does not happen in a vacuum. The resilience of environmental, social and financial systems is necessary for investors to generate sustainable long-term returns. Institutional investors in Canada recognize the systemic risk that climate change poses to their holdings, portfolios and asset values. Changes in government regulations, the physical environment, and technological developments have the potential to seriously impact the systems in which markets and companies operate and could affect returns across investment portfolios.

As these consequences become more and more visible, some institutional investors are already making investment decisions based on the GHG efficiency of issuers, favouring those that are more "carbon efficient" relevant to their sector benchmark or have a lower overall carbon footprint.

Further, institutional investors such as pension funds and mutual funds are facing demands from beneficiaries and customers for assessments of the carbon footprint of their portfolio and/or "green" financial products, both of which depend on accurate, consistent and up-to-date GHG emissions data from issuers.

For these reasons the CSA should require reporting issuers to disclose their Scope 1 and 2 GHG emissions annually. GHG emissions should be calculated and disclosed using an established and widely accepted methodology, such as the GHG Protocol, to allow for aggregation and comparability across organizations and jurisdictions. The United Kingdom's Companies Act 2006 (Strategic Report and Directors' Report) Regulations 2013 includes a part on Disclosures Concerning Greenhouse Gas Emissions that could inform required Scope 1 and 2 GHG emissions disclosure in Canada.[15]

Investors have demonstrated a strong appetite for scope 1 and 2 GHG emissions disclosure across all sectors. Globally, on an annual basis investors with more than $100 trillion in assets annually request all large publicly traded companies to disclose their scope 1 and 2 GHG emissions;[16] investors with more than $10 trillion in assets formally report their portfolio carbon footprints using this data and estimates to fill in the gaps;[17] and investors with more than $600 billion in assets have committed to using this data to impact allocation decisions that effect reductions in their portfolio carbon footprints.[18]

Further, because many of these portfolio-wide impacts may actually result from the use of the issuer's product and/or the company's supply chain rather than their own operations, reporting issuers should be required to disclose Scope 3 GHG emissions using a "comply or explain" model. A model for such a requirement is Article 173 of the French *Energy Transition Law*, which requires, in part, that listed companies disclose "the consequences on climate change of the company's activities and of the use of goods and services it produces."[19]

Lastly, the transition to a low carbon economy may entail a transformation in the employment structures of certain sectors. Social inclusion and the creation of decent work opportunities are relevant to a company's successful management of transition risks. Accordingly, we recommend that consideration of workforce retraining and redeployment, if applicable, be addressed in the organization's disclosures on processes for managing climate-related risks and in disclosures related to the resilience of the organization's strategy. As we have recommended that those disclosures be required on a "comply or explain" basis, the issuer may determine the applicability of these data for their company reporting.

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[15] United Kingdom. (2013). *Companies Act 2006 (Strategic Report and Directors' Report) Regulations 2013*. Retrieved from http://www.legislation.gov.uk/uksi/2013/1970/regulation/7/made

[16] Carbon Disclosure Project. (2017). *Climate change information request*. Retrieved from https://b8f65cb373b1b7b15feb-c70d8ead6ced550b4d987d7c03fcdd1d.ssl.cf3.rackcdn.com/cms/guidance_docs/pdfs/000/000/227/original/CDP-Climate-Change-Information-Request.pdf?1478623269

[17] Montréal Carbon Pledge. (date unknown). *The Montréal Carbon Pledge*. Retrieved from http://montrealpledge.org/

[18] Portfolio Decarbonization Coalition. (2016-04-11). *Annual Report 2016*. http://unepfi.org/pdc/

[19] http://2degrees-investing.org/IMG/pdf/energy_transition_law_in_france_-_briefing_note_final.pdf

7. Level/threshold for disclosure requirements.

We acknowledge that any new disclosure requirements are likely to add costs for issuers, and there may be a need to limit the disclosure requirement to larger issuers or have less onerous requirements for smaller issuers. A threshold for disclosure requirements could be established based on exchange (e.g. venture exchange) or market capitalization.

8. Location of disclosures.

We support the TCFD's recommendation that disclosures related to Governance and Risk Management recommendations should be included in annual regulatory filings for all issuers. Disclosures related to the Strategy and Metrics and Targets are subject to a materiality assessment but, if deemed material, should be included in the annual regulatory filings. Those that are not deemed material to the company but are still considered relevant (such as, in some cases, the company's GHG emissions) may be disclosed through other channels including the annual report, the company's website, or a sustainability report.

9. Role of guidance

We believe that guidance on voluntary disclosures has not been sufficient to solicit adequate disclosure on climate-related risks and opportunities and therefore a regulated approach is necessary. However, to supplement that regulation, additional specific guidance should be developed to assist issuers in understanding the scope of potential matters for disclosure, when disclosure is necessary, and when an explanation would suffice. The TCFD final report provides guidance on the content of governance and risk management disclosures, as well as potential risks and opportunities relevant to issuers which could be adapted for use in Canada.

10. Process

We recommend that the CSA adopt a process similar to that undertaken when amending *NI 58-101 Disclosure of Corporate Governance Practices* to incorporate disclosures concerning the representation of women on boards and in executive officer positions. In that instance, the CSA conducted an annual targeted review of disclosure provided by issuers and committed to assess, at the end of three years, the effectiveness of the disclosure and consider whether other regulatory action is needed. As investors obtain access to, and make use of, the climate-related disclosures discussed above, best practices will emerge and, if necessary, it will become possible to refine both mandatory and "comply or explain" disclosures based on that experience.

It may also be possible to establish additional meaningful disclosure requirements for investment funds and asset managers regarding the resilience of their portfolios in light of a climate transition once data from issuers is available to them.

Should you have any questions about any of the above, please don't hesitate to contact Kevin Thomas at 416-992-5392 or kthomas@share.ca or Brian Minns at 647-253-1029 or b.minns@addenda-capital.com. Thank you again for working with us on the investor consultation and for your collective work to examine this critical issue.

Sincerely,

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