



Climate-Related Reporting in the Mining Sector

ROUNDTABLE REPORT

There is growing widespread appreciation of the economic and societal implications of climate risk among investors which has led to the rise of Environmental Social and Governance (ESG) investing¹ and a global push for more climate-related financial disclosure. For natural resource companies that have both direct exposure to extreme weather risk and are under the microscope in terms of their environmental impact, the pressure is on.

With that backdrop, CPA Canada has turned its attention to the [Task Force on Climate-Related Financial Disclosures](#) (TCFD) recommendations and on May 28, 2019 convened a roundtable of Canadian finance and investor relations professionals from the mining sector to understand where the sector is headed on this front. The conversation took shape around the [findings from a series of interviews](#) with institutional investors conducted by CPA Canada to gauge how they are using climate-related information and the types of specific information they are looking for from companies.

1 CPA Canada, [Investor interviews on climate disclosure and decision-making: Key findings](#), May 2019.

The following is a summary of the wide-ranging discussion:

Climate-related issues have the potential to be material and should be easy to find — so say Canada’s institutional investors

Even though all of the mining companies represented at the roundtable produce comprehensive sustainability reports and / or report greenhouse gas emissions through voluntary programs such as the [Carbon Disclosure Project](#) (CDP) and the [Global Reporting Initiative](#) (GRI), there is limited climate-related financial disclosure in mainstream financial filings (e.g., regulatory filings, financial statements). As such, it is difficult to ascertain whether such information could potentially influence the decisions of investors. Institutional investors CPA Canada interviewed for its report stated that they view climate-related risks as pervading all sectors and geographies. As a result, the default view is that climate-related issues are material unless otherwise demonstrated.

“They are buying the data but then they have to make assessments on their own because the third party data aggregator is not going to tell them what they should be focused on, or what is most material. They [institutional investors] are making decisions without the appropriate context.”

— ROUNDTABLE PARTICIPANT

So where are institutional investors turning for climate-related financial information? They are purchasing it from third-party data providers. Roundtable participants see this as cause for concern.

“Our investors are primarily European and ESG compliance is a top priority for them.”

— ROUNDTABLE PARTICIPANT

Machine readable data (XBRL) could offer a way forward, according to one roundtable participant. “If applied to Corporate Social Responsibility (CSR) reporting, mining companies will have the ability to tag their climate-related information, ...creating one source for this data for all companies.”

Integrating climate-related disclosures into mainstream financial reporting

All of the institutional investors interviewed by CPA Canada have positions in the materials sector. As well, many of these institutional investors are all also signatories with the Canada-based [Responsible Investment Association](#) (RIA) and / or the Europe-based [Principles of Responsible Investment](#) (PRI), which require asset owners to demonstrate they are applying ESG factors into the selection and management of investments. In order for asset owners/institutional investors to meet their own reporting requirements, they have to get the information from their investees. As per the TCFD recommendations, investors want to better understand a company’s climate risk assessment process and the governance structure around that process. As a result, it’s getting harder and harder to keep sustainability and financial reporting functions separate. This will only continue as ESG considerations become increasingly integral to valuing companies.

Roundtable participants are well aware of the shift taking hold in capital markets and internal conversations are taking place on greater integration between sustainability and finance functions. Many feel finance should be involved in conducting materiality and

“Eventually these two reports will be one report but before we jump into that let’s see what the rest of the world is doing. We are not yet there. Three years ago when we started talking about this, there was not a lot of interest from finance. Now there are more questions [from stakeholders] and more interest.”

— ROUNDTABLE PARTICIPANT

“When we talk about climate change there is direct impact, which is relatively easy to quantify, and indirect impacts, which are more qualitative. How do you assess indirect impacts of climate risk in terms of cost? How do you obtain assurance over this information?”

— ROUNDTABLE PARTICIPANT

risk assessments of climate-related issues and establishing governance around these assessments as well as setting targets but none of that is happening today. Once finance is involved, then including relevant climate-related disclosures within mainstream financial filings would be more straightforward.

The need for structure and standards

Perhaps the greatest challenge to incorporating climate-related disclosures in financial statements is the lack of clear understanding of how to define and document materiality and risk assessment as they pertain to climate-related issues.

Another key concern raised by roundtable participants: The consequences of increasing disclosures. “Voluntarily including climate-related disclosures in the Management Discussion & Analysis could lead to an

over-reaction in terms of the likelihood of that risk.”

Too much data, not enough clarity

For many of the roundtable participants, TCFD is one more reporting framework among a growing list of initiatives they are already complying with. Consolidation and integration of reporting requirements will help make it easier for preparers and investors.

Where will the final push to make climate-related disclosures a requirement come from?

Governments? Regulators? The free market? Or will it come internally, from boards of directors. Roundtable participants say they are increasingly fielding questions from their boards about climate-related disclosure requirements and risk assessment processes. What is clear, is the need for guidance.

CPA Canada is engaged in a multi-year project with Natural Resources Canada that includes developing climate change training for boards of directors, senior-level executives, CPAs in industry and audit. Pilot programs of the training will roll out in Fall 2019.

“We have all this information and we are the ones who have to index it to TCFD, CDP, GRI and all the rest. It’s a lot of work. What we are trying to determine is what’s valuable for the business? What’s useful to our investors? And how can we provide that information in a format that provides the necessary context and is easy to find?”

— ROUNDTABLE PARTICIPANT

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