

February 2, 2022

c/o

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Ontario Securities Commission  
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To whom it may concern:

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

Chartered Professional Accountants of Canada (CPA Canada) appreciates the opportunity to comment on Proposed National Instrument 51-107 *Disclosure of Climate-related Matters* (Proposed Rule).

CPA Canada is one of the largest national accounting organizations in the world, representing more than 220,000 members. CPA Canada supports the setting of accounting, auditing and assurance standards for business, not-for-profit organizations and government, and also conducts research into current and

emerging business issues. We have done extensive research on sustainability and particularly climate-related reporting trends, practices and challenges, and issued many resources on these topics.<sup>1</sup>

In developing our response, we conducted a series of virtual roundtables and other outreach sessions and in total spoke with over 100 stakeholders including investors, preparers, directors, auditors and subject matter experts. While the participants were generally from a cross-section of industries, we also held focused sessions for the energy and mining sectors given the heightened relevance of the Proposed Rule for them. We consulted relevant CPA Canada advisory committees including our Sustainability Reporting Advisory Committee and Canadian Performance Reporting Board.

We support efforts by the Canadian Securities Administrators (CSA) to introduce new disclosure requirements to meet the growing demand by investors for enhanced climate-related information. Climate change is a complex and multifaceted issue, and it is important the CSA remains focused on the needs of investors. In our view, the Proposed Rule is a good first step but there are issues that need to be addressed to ensure the CSA's objectives of consistent and comparable disclosure and investor protection are met.

We have outlined our specific comments on some of the CSA's consultation questions in the Appendix and have highlighted some key areas for consideration below.

#### *Global context*

In determining the appropriate path to achieving enhanced climate-related disclosures in Canada, it is important to consider the broader global context, including the recent announcement of the formation of the IFRS Foundation's International Sustainability Standards Board (ISSB) and the expectation that the ISSB will issue a proposed climate disclosure standard in 2022.

The CSA has indicated it will continue to monitor international developments and that it believes the work of the ISSB will result in standards that are complementary to the Proposed Rule. In our view, more than just monitoring is needed. We discovered a great deal of confusion among stakeholders about how all these different initiatives fit together. Stakeholders would benefit from greater clarity on the CSA's longer-term strategy with respect to adoption of IFRS Sustainability Disclosure Standards.

We note that the ISSB has been strongly supported by the CSA and the International Organization of Securities Commissions (IOSCO). We also note that the Task Force on Climate-related Disclosures (TCFD) has expressed support for the ISSB and its work to build on the TCFD recommendations. We are not certain what role, if any, the TCFD will have in the future, but it appears that in order for the CSA to achieve its objectives of consistent and comparable disclosures over the longer term, CSA requirements will need to be aligned with those of the ISSB.

While the Proposed Rule allows the CSA to make progress on climate disclosure in the short-term, it is also important to consider investor needs related to environmental, social and governance (ESG) issues beyond climate. This is another reason why Canadian ESG disclosure requirements should be aligned with international sustainability reporting standards to the greatest extent possible. Stakeholders we spoke with almost unanimously shared this view.

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<sup>1</sup> CPA Canada's sustainability-related resources can be accessed at: [Sustainability for the future](#)

The CSA should also carefully assess the implications of any changes to climate-related disclosure requirements by the U.S. Securities and Exchange Commission (SEC), including implications for the Multijurisdictional Disclosure System.

### *Status of TCFD implementation*

We agree that the 11 core recommendations of the TCFD provide a good starting point for the Proposed Rule; however, there are a number of implementation issues that need to be carefully considered by the CSA. These issues are evident from the TCFD's 2021 Status Report (Status Report) published in October 2021<sup>2</sup> which describes progress on implementation of the TCFD's recommendations and related challenges.

The Status Report found that while the quality and quantity of disclosures have evolved, there is room for further improvement. The CSA should consider the results from the extensive field testing conducted by the TCFD reported on in the Status Report, which included review of the 2020 reports of more than 1600 companies, public consultations, and interviews. Some key findings from the Status Report include:

- Alignment with the full suite of TCFD recommendations remains low with only 50% of companies reviewed disclosing in alignment with at least three of the TCFD's 11 core recommended disclosures.
- Disclosure of the resilience of companies' strategies under different climate-related scenarios is the least reported recommended disclosure at 13%.
- Two of the most challenging areas of implementation, according to TCFD survey respondents, relate to the TCFD's recommendations on strategy and metrics and targets.
- Disclosure of financial impacts remain limited with only about 20% of companies reporting in line with TCFD recommendations. A lack of confidence in data, methodology, and assumptions is often the main driver behind decisions not to disclose quantitative financial impacts.

Alongside the Status Report, the TCFD also issued two additional publications dated October 2021:

- [Guidance on Metrics, Targets, and Transitions Plans](#)<sup>3</sup>
- [Updates to TCFD implementation material initially published in 2017](#)<sup>4</sup>

We have reviewed the October 2021 publications and identified some issues that should be considered. One of our findings is that the October 2021 publications contain much more than just guidance – they contain many additional recommendations that expand on or amend the original 11 core recommendations of the TCFD. A particularly important one is a recommendation that disclosures should be provided for the same period as other information in the filing. Other examples include the new requirements introduced for specific industry groups. The CSA should consider whether there are recommendations in the October 2021 publications that should be incorporated into the Proposed Rule. The CSA should also consider the compatibility of the October 2021 publications with CSA requirements for MD&A.

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<sup>2</sup> [TCFD 2021 Status Report \(October 2021\)](#)

<sup>3</sup> [TCFD Guidance on Metrics, Targets and Transition Plans](#)

<sup>4</sup> [TCFD Implementing the Recommendations of the Task Force on Climate-related Financial Disclosures](#)

We note that the CSA's Proposed *Policy Statement to Regulation 51-107 Respecting Disclosure of Climate-related Matters* states: "In addition to this Policy Statement, issuers should consider the TCFD Final Report and related publications from the TCFD in preparing the disclosure required by the Regulation." It is not clear what "should consider" means and whether the CSA expects issuers to follow the recommendations and suggestions in the October 2021 publications and future TCFD publications in order to meet disclosure obligations under the Proposed Rule.

Given the issues raised above, we believe that more specific and detailed disclosure requirements and guidance are needed to ensure that issuers understand their disclosure obligations and that climate reporting is aligned with investor and CSA expectations.

#### *Forward-looking information*

An increasing number of companies are disclosing long-term net-zero carbon emissions reduction targets, driven by increasing pressure from investors, regulators, government bodies, and others. Our research on net-zero disclosures<sup>5</sup> revealed a range of disclosures being provided and room for improvement in those disclosures.

Based on our review of the Climate-related Disclosures Prototype prepared by the IFRS Foundation's Technical Readiness Working Group and the Climate Standard Prototype working draft developed by the European Financial Reporting Advisory Group (EFRAG), this is an area that is being considered in more depth in other jurisdictions. We encourage the CSA to do the same. We also note that the Proposed Rule is based on TCFD recommendations developed before the notable increase in interest by investors in carbon emissions reduction targets and the widespread proliferation of companies providing this information.

In our view, the CSA's existing rules and guidance on forward-looking information (FLI) are insufficient with respect to some currently used climate-related disclosures and some of the ones being proposed. To begin with, there is confusion about whether existing FLI rules are even applicable to some disclosures. We think many climate-related targets may not be caught by the current definition of FLI which is "disclosure regarding possible events, conditions or financial performance that is based on assumptions about future economic conditions and courses of action and includes future-oriented financial information with respect to prospective financial performance, financial position or cash flows that is presented as a forecast or a projection." A carbon emissions reduction target does not seem to be a possible event, condition or measure of financial performance.

Emissions reduction targets typically extend far beyond the timeframes we have historically seen or have been allowed for FLI in regulatory filings. Scenario analysis also seems to be a form of FLI. Preparers and investors would benefit from guidance from the CSA on its expectations for climate-related FLI. This will be particularly important information for those issuers that wish to provide scenario analysis. The CSA should also consider compatibility of its existing rules and guidance for FLI with the TCFD implementation material.

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<sup>5</sup> [Review of net zero disclosures: Challenges and opportunities \(cpacanada.ca\)](https://cpacanada.ca/review-of-net-zero-disclosures-challenges-and-opportunities)

*Greenhouse gas (GHG) emissions disclosure*

We do not object to the “comply or explain” approach to reporting GHG emissions at this time and note that many larger issuers are already providing this information. This approach was supported by many stakeholders we consulted with on the basis that it allows for company specific assessments and offers transparency for investors. However, this area should be closely monitored as investor expectations continue to evolve. Some stakeholders highlighted disclosure of at least Scope 1 and Scope 2 emissions as critical information for investment decision-making. In contrast, very few stakeholders suggested Scope 3 disclosure should be required at this stage.

We consistently heard about the difficulty in gathering Scope 3 emissions data and concerns over the reliability of this information. Significant diversity in Scope 3 measurement and reporting practices would limit the usefulness of such information for investors. These issues should be addressed in anticipation of the need to require disclosure of Scope 3 emissions data sometime in the future.

The CSA has indicated that the Proposed Rule is intended to facilitate a level playing field for all issuers through comparable and consistent disclosure. We acknowledge that there is wide-spread recognition and use of the GHG Protocol. However, we have also heard that the GHG Protocol provides wide latitude in making and applying judgments and assumptions. As a result, we are concerned about whether use of the GHG Protocol will achieve the CSA’s objectives and believe there should be a requirement to disclose the judgments and assumptions being used. Given the importance of GHG emissions metrics, we encourage the CSA to conduct further analysis on the GHG Protocol to conclude on whether it is fit for purpose in the Canadian context. Based on our outreach, there does not appear to be widespread understanding of the GHG Protocol and how it is developed.

*Accommodations for smaller issuers*

More work should be done by the CSA to understand investors’ climate-related information needs related to smaller issuers. We generally heard that smaller issuers should not be exempt from the Proposed Rule in its entirety, but some accommodation should be provided. We also heard that many smaller issuers have limited resources to develop the more challenging disclosures, would have to engage others for help, and that outside resources are scarce and expensive.

The U.K. is requiring disclosure based on TCFD recommendations only for larger companies using a specific threshold and the CSA should consider a similar approach. The findings reflected in the Status Report also support consideration of the U.K. approach along with the possibility of lowering an initial threshold over time.

*Interaction with other issues*

We heard that it is important to consider the interaction of climate risks and opportunities with other issues such as the impact on Indigenous peoples and communities. We note that Indigenous matters are critically important in Canada and guidance is needed on how these perspectives should be factored into the disclosure.

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The CSA will have a number of challenges and varying viewpoints to address in moving forward with the important work of determining how to obtain high-quality, comparable, and decision-useful climate-related disclosures in Canada. Given the rapidly evolving landscape, we encourage the CSA to provide a roadmap for its plans and keep stakeholders apprised of any ongoing work.

Thank you for the opportunity to comment on this proposal. We would be pleased to share further insights and answer any questions you may have. Please contact Rosemary McGuire, Director, Research, Guidance and Support ([rmcguire@cpacanada.ca](mailto:rmcguire@cpacanada.ca)).

Yours truly,

A handwritten signature in black ink, appearing to read "Gordon Beal", is centered on the page. The signature is fluid and cursive, with a long horizontal stroke extending to the right.

Gordon Beal, FCPA, FCA, M.Ed  
Vice-President, Research, Guidance & Support

## Appendix

*We have included below our responses to select consultation questions.*

### Question 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?**

We agree with the CSA's proposal to exclude a requirement for scenario analysis at this time for the reasons outlined in the proposal. Refer to our comments elsewhere in this letter regarding forward-looking information (FLI).

### Questions 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?**

As noted in our cover letter, we do not object to the "comply or explain" approach to reporting of GHG emissions. Please refer to comments in our cover letter.

We encourage the CSA to conduct outreach with high-emitting issuers who are currently required to report their GHG emissions under existing regulations in order to understand any concerns they may have with the GHG Protocol and to further understand areas where the Proposed Rule and existing emissions reporting obligations may be different.

We heard from some issuers and others that inclusion of GHG emissions data in the AIF or annual MD&A may pose timing challenges as they typically obtain and report this information in sustainability reports several months after regulatory filings are made. We are concerned that the proposal could result in

unintended consequences. For example, some issuers may not provide GHG emissions disclosure because of this timing constraint. In addition, others may delay the filing of their annual documents to allow more time to develop their GHG emissions disclosure. The CSA should consider allowing GHG emissions disclosure to be for a different period than other information. For example, it may be appropriate to allow an issuer with a December 31 year end to provide GHG emissions data for a 12-month period ending September 30.

#### Question 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?**

Please refer to comments in our cover letter. In general, we are supportive of a single reporting standard, but further work needs to be done to understand the GHG Protocol and other standards based on the GHG Protocol that may also be acceptable. Ideally, this work should be undertaken at a global level. As an example, we note the Global GHG Accounting and Reporting Standard for the Financial Industry developed by Partnership for Carbon Accounting Financials,<sup>6</sup> which has been reviewed by the GHG Protocol.

#### Question 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?**

Assurance is important as it builds trust in the information being disclosed and relied on for investment decision-making; however, further work needs to be done as this is an evolving area. The question should not be whether or not there should be a requirement for an audit.

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<sup>6</sup> [The Global GHG Accounting and Reporting Standard for the Financial Industry](#)



There is a continuum of assurance engagements that needs to be considered and a number of questions that need to be addressed by the CSA, including:

- What level of assurance do investors need? Are they satisfied with the limited assurance they are currently receiving?<sup>7</sup>
- What are the costs and benefits?
- Why should assurance be required over this information rather than other information provided by issuers?
- Who would be permitted to conduct these assurance engagements and what qualifications would be needed?
- Are the existing assurance frameworks appropriate to support investor needs?

We also note that this issue is not limited to Canada. In general, assurance is an important element of climate disclosure proposals being introduced in other parts of the world. The CSA should monitor developments in the U.S. and globally to inform its analysis of whether and when assurance over GHG emissions should be introduced in Canada.

#### **Question 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?**

We support allowing issuers to incorporate GHG emissions by reference to other documents.

#### **Question 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?**

Please refer to comments in our cover letter. We believe more work should be done by the CSA in this area and that some accommodation is needed for smaller issuers.

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<sup>7</sup> [The State of Play in Sustainability Assurance | IFAC](#)

#### Question 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?**

We do not believe that saying issuers “should consider” TCFD implementation material and other publications is appropriate as that material is provided in the context of a voluntary disclosure framework which is inconsistent with the rules-based approach of the CSA. As noted in our cover letter, the TCFD issued two implementation/guidance publications in October 2021 that together total 143 pages and, on examination, contain many recommendations that go well beyond the 11 core recommendations in the TCFD’s Final Report on which the CSA’s proposals are based.

As noted in our cover letter, the CSA should review the TCFD’s October 2021 publications to determine what information should be included in the Proposed Rule and what should be in the proposed companion policy.

#### Question 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?**

Yes, issuers should be required to include this disclosure in a long-form prospectus given that it is needed to make an informed investment decision. The requirements for disclosure in a long form prospectus should be effective using the same implementation timelines as National Instrument 51-107, once finalized.

#### Question 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?**

We agree with the proposed timelines; however, we believe this rule will require amendments frequently and in the near future given the rapidly evolving landscape. As noted elsewhere in this letter, the CSA needs to provide regular updates on any changes to its plans.

**Other matters**

Please refer to comments in our cover letter where we have addressed some other matters, including global sustainability standard setting developments, forward-looking information, interaction of climate risk with other issues, and the need to consider the findings in the TCFD 2021 Status Report.