

Steven Oh
Ontario Securities Commission
20 Queen Street West, 22nd Floor
Toronto ON M5H 3S8

Oujala Motala
Ontario Securities Commission
20 Queen Street West, 22nd Floor
Toronto ON M5H 3S8

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Input on the Canadian Securities Administrators (CSA) Climate Disclosure Review

About the PRI

The United Nations-supported Principles for Responsible Investment (PRI) represents 1700 signatories globally, 99 of which are Canadian. PRI signatories report annually on their approach to responsible investment.

Responsible investment is an approach to investment that explicitly acknowledges the financial relevance to the investor of environmental, social and governance (ESG) factors, and the long-term health and stability of the market as a whole.

Summary of Response

The PRI welcomes the Canadian Securities Administrators (CSA) climate change disclosure review.

Climate change is a financially material risk that requires disclosure. The PRI encourages the CSA to support the standardisation of climate change disclosure thereby increasing the availability and use of comparable climate-related, financial and risk management information.

Companies and investors are already disclosing financially material climate risks. Action by the CSA can help to standardise climate change disclosures by requiring use of prominent frameworks. There is significant demand for standardised climate change disclosures and an improvement in the quality and comparability of ESG reporting generally.

The flagship final report of the Financial Stability Board Task Force on Climate-related Financial Disclosures (TCFD) helps companies and investors organise, order and prepare disclosures¹. The PRI's reporting and assessment framework has been updated to reflect the TCFD recommendations on investor disclosure². If you would like more information, we would welcome an opportunity to discuss with you.

¹ <https://www.fsb-tcfd.org/wp-content/uploads/2017/06/FINAL-TCFD-Report-062817.pdf>

² <https://www.unpri.org/report>

Standardisation of climate change disclosure will:

1. For companies, lower the cost of reporting;
2. For investors, allow for comparability between companies, sectors and across time-series, therefore increasing the usefulness of data.

We therefore recommend:

1. The CSA publicly endorse the TCFD's recommendations;
2. The CSA issue guidance on implementation of the TCFD's recommendations, and monitor progress;
3. In the guide, the CSA encourage that climate disclosures are:
 - a. Included within the annual report, showing clear links to the company's business model and risk factors;
 - b. Assured, consistent with traditional financial data;
 - c. Reported using common performance metrics—in particular, by industry, portfolio and across time series—so that it is easily comparable;
 - d. Incorporating additional company-specific climate risks and opportunities that may not be included in the TCFD recommendations;
4. The CSA undertake similar consultations to account for all material ESG factors.

Comments and Recommendations

Companies and investors are already disclosing financially material climate change risks

PRI signatories are required to report on their responsible investment activities through PRI's Reporting Framework; climate change is cited as the second most important long-term trend posing a risk to investments, coming just after changing demographics. It's also the trend with the largest year-on-year point increase, from 60% in 2016 to 65% of all reporters in 2017. In Canada, 64% of asset owner signatories consider climate change and 73% of investment managers consider it.

Since 2010, nearly 500 investors have convened with the support of the PRI to engage companies on issues such as deforestation, methane, corporate climate lobbying and water risk.

From 2014, following our annual investor conference in Canada, the PRI launched the Montréal Carbon Pledge³, an investor commitment to undertake and disclose a portfolio carbon footprint, which is supported by over 120 investors representing US\$10 trillion. Foot-printing and other climate-related portfolio assessments are only possible with access to corporate data on climate.

Most recently, nearly 400 investors representing US\$22 trillion signed a PRI-led letter encouraging G20 members to ratify the Paris agreement and implement the FSB TCFD.

Incorporation of the FSB TCFD into reporting measures

The recently published PRI-Baker McKenzie [Climate Disclosure Regulation Review of Canada](#) finds that Canada's existing regulations requiring climate disclosure are not yet consistent across sectors or in relation to the scope or medium of reporting. PRI strongly recommends for the CSA to introduce new or update existing guidance that clearly references and aligns with the TCFD recommendations.

An update to existing guidance is necessary, as investor opinion on reporting enhanced financial information has strengthened since the release of the CSA Staff Notice 51-333. For example,

³ <http://montrealpledge.org/>

CPA Canada has begun to review the effectiveness of management discussion and analysis disclosures that mention climate risks⁴. Additional disclosures have been mandated for oil and gas⁵ and mineral⁶ projects for over a decade, both of which have been subject to recent updates and amendments. Several studies have also indicated that ESG issues are routinely considered by Canadian investors although frustrations exist about the quality of the information provided to them⁷.

Precedent exists internationally

The PRI has identified nearly 300 regulatory initiatives across the 50 largest economies in the world that require or incentivise responsible investment, the majority of which relate to corporate disclosure.⁸ Standardised climate disclosures would be consistent with international momentum, including:

- [Europe's non-financial reporting directive](#) (2016), which requires 6,000 large companies and groups across the EU to disclose, in their management report, information on policies, risks and outcomes of environmental matters, social and employee aspects, respect for human rights, anticorruption and bribery issues, board diversity, and any other material ESG issues. The [complementary guidelines](#) aim to ensure companies disclose high quality, relevant, useful, consistent and more comparable information. It encourages disclosing forward looking data, linking ESG disclosures to other aspects of the management report, and assuring data through an independent external audit.
- [Article 173 of the French Energy Transition Law](#) (2016), which requires listed companies to disclose financial risks related to climate, mitigation efforts, and the impact of climate on goods and services. It also places disclosure and integration requirements on banks, credit providers and institutional investors.

Other policy signals such as the [G20 study group on green finance](#), and the draft Senate Bill 584 in California⁹ indicate that climate-related policy measures will only increase moving forward.

The PRI has expertise in ESG regulation across international markets. Martin Skancke, Chair of the PRI, served on the FSB TCFD, and we participate as an observer to the [EU high level expert group on sustainable finance](#).

Enhancing ESG disclosure is consistent with recent updates to the domestic regulation framework

By improving climate and ESG disclosure more broadly, the CSA would enable domestic investors to comply with existing requirements such as the Ontario Pension Benefits Act, Regulation 909. Furthermore, the CSA would build on the Financial Services Commission of Ontario's leadership and momentum in advancing the responsible investment policy framework in Canada.

⁴ PIAC Corporate governance principles: <http://www.piacweb.org/files/PIAC-Corporate-Governance-Principles-and-Guidelines-14-09-29.pdf>

⁵ Oil and gas disclosures: <http://www.osc.gov.on.ca/en/13338.htm>

⁶ Mineral project disclosures: <http://www.osc.gov.on.ca/en/15019.htm>

⁷ 2016 Canadian Investor Survey: New insights into what investors want from disclosure (RR Donnelly & simplelogic): <http://simple-logic.com/?p=1389>

⁸ PRI: [Responsible Investment Regulation Database](#)

⁹ If passed, will commit California to source its energy from 100% renewable sources by 2045.

If you would like to receive more information about our work, we can discuss at your convenience.

Yours sincerely,



Nathan Fabian

Director of Policy & Research

Principles for Responsible Investment

Annex 1: Climate change at the PRI and additional resources

The PRI has published or co-authored the following publications relevant to the CSA's review:

- PRI-Baker McKenzie [Climate Disclosure Regulation Review of Canada](#)
- [Fiduciary Duty in the 21st Century](#) and the subsequent [Canada Roadmap](#)
- [The United Nations Sustainable Stock Exchanges Model Guidance on Reporting ESG Information to Investors](#)
- [Green Equity Investing : 10 Case Studies of Integration](#)

The PRI will support the uptake of the FSB TCFD by facilitating investor dialogue with companies to encourage its adoption, as well as capacity-building to advance investment practice.