UPP UNIVERSITY PENSION PLAN ONTARIO

February 2, 2022

Sent via electronic mail

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

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Subject: Consultation on Proposed National Instrument 51-107 *Disclosure of Climate-related Matters*

To whom it may concern:

We have reviewed the Canadian Securities Administrators' ("CSA") Climate-related Disclosure Update and CSA Notice and Request for Comment on Proposed National Instrument 51-107 *Disclosure of Climate-related Matters* ("Proposed Instrument"), and we thank you for the opportunity to provide our comments.

University Pension Plan Ontario (UPP) is one of Ontario's newest multi-employer, jointly sponsored pension plans (JSPP) designed to enhance long-term pension security within Ontario's university sector. It currently serves more than 35,000 members at Queen's University, Trent University, University of Guelph and University of Toronto, and eventually other Ontario universities that wish to join, with the consent of their members. With assets in excess of $10 billion, UPP seeks to embed responsible investment practices throughout our investment management activities.

We are deeply concerned that the shortcomings of the Proposed Instrument will leave UPP, and other asset owners and investment managers, without information that is critical for our investment, risk and stewardship capabilities and our ability to establish and achieve meaningful climate-related targets.

Investors can play an important role in the transition to a sustainable, resilient, low-emissions society by encouraging the necessary changes and by helping finance the transition. One of the necessary changes we encourage is mandatory, consistent, and standardized disclosure of climate-related information from the entities we can invest in, including their plans to transition to a low carbon economy in a manner that is supportive of the goals of the Paris Agreement. This decision-useful information can help investors make more informed investment decisions and it is increasingly required by investors to meet our own disclosure requirements.

We are pleased that the Canadian Securities Administrators have proposed National Instrument 51-107 *Disclosure of Climate-related Matters* and its companion policy, but we think you need to impose more stringent requirements that would better address the urgency of our need to transition to a sustainable, resilient, low-emissions society and the rapidly increasing climate-related disclosure expectations of issuers and investors globally.

As an investor, UPP is developing its own plans to support the transition to a resilient, low-carbon society and manage climate-related risks and we are contemplating our own climate-related disclosures to stakeholders. For planning, risk management and disclosure we need scope 1 and 2 GHG emissions for all issuers and scope 3 GHG emissions for a growing proportion of issuers each year. We also need to be able to understand and evaluate the transition plans of issuers and the resilience of their businesses in a variety of climate scenarios. This information supports our analysis, as well as that of our external investment managers and also supports informed stewardship activity (such as proxy voting and engagement with issuers).

If we, and other investors, are not provided with sufficient information by issuers then we are forced to fill in the gaps with estimates that can be incomplete or inaccurate. Disclosure starts with issuers but there are many downstream users of this information including Canadian and global financial market participants and other stakeholders.

As noted below, we are supportive of phasing in reporting requirements for issuers depending on their complexity and GHG emissions intensity. We are also supportive of affording issuers some safe harbour protection to encourage enhanced disclosure, but the CSA must make disclosure mandatory for all issuers starting with annual filings due in 2026.

Below, we have provided some overall comments and responses to some of the specific questions posed in the consultation. Do not hesitate to contact me at brian.minns@universitypensionplan.ca or +1 416-417-2587 if you require any additional information.

Sincerely,

Barbara Zvan

CEO & President

University Pension Plan Ontario

Overall comments

A. Issuers should be required to disclose plans to transition to a low carbon economy supportive of the goals of the Paris Agreement of the Parties to the United Nations Framework Convention on Climate Change

Issuer's plans to transition to a low carbon economy should be required disclosures due to the systemic risks that climate change poses to both issuers and investors. It is in society's and our members' interest to support the orderly transition to a low carbon economy in support of the goals of the Paris Agreement, including trying to hold the increase in the global average temperature to well below 2°C above pre-industrial levels and pursuing efforts to limit the temperature increase to 1.5°C above pre-industrial levels. These plans provide decision-useful information for investors and the development of these plans will likely stimulate important work by issuers to develop climate governance and leadership, strategy, risk management and targets.

In October 2021, the Task Force on Climate-related Financial Disclosures ("TCFD") updated its recommendations to specify that issuers should describe their plans for transitioning to a low-carbon economy in a new version of *Annex: Implementing the Recommendations of the Task Force on Climate-related Financial Disclosures* that supersedes the 2017 version. The TCFD document, *Guidance on Metrics, Targets, and Transition Plans* (2021), itemizes key information that organizations should disclose regarding their plans for transitioning to a low carbon economy (in Table E1, Transition Plan Elements, on page 42).

B. National Instrument 51-107 *Disclosure of Climate-related Matters* should be reviewed regularly and no later than 2 years after it comes into force

Investor expectations for climate-related disclosure from issuers is growing quickly and so are regulatory requirements elsewhere in the world. The proposed disclosures would not be mandatory until 2024 at the earliest, but as noted in the consultation, some other jurisdictions are moving much more quickly. Canadian requirements should be reviewed in 2024 with a view to quickly harmonizing with internationally recognized standards that emerge. While we expect alignment with internationally recognized standards such as what will emerge from the International Financial Reporting Standards ("IFRS") Foundation's International Sustainability Standards Board ("ISSB"), investors in Canadian issuers cannot simply wait for improved international standards and so disclosure requirements should be revisited regularly.

Several jurisdictions are moving toward mandating climate disclosure as noted in the consultation. For example, the Government of New Zealand has introduced legislation to make climate-related disclosures mandatory for some organizations. This requirement would apply to publicly listed companies and large insurers, banks, non-bank deposit takers and investment managers. Similarly, the United Kingdom has announced its intention to make TCFD aligned disclosures fully mandatory across the economy by 2025. In the United States, the Securities and Exchange Commission's Chair has indicated that pending climate risk disclosure rules will require companies to detail and measure their commitments to mitigate climate change. Scope 1 and Scope 2 emissions will be required disclosures in many jurisdictions.

After the CSA's publication of Proposed National Instrument 51-107 *Disclosure of Climate-related Matters*, the IFRS's ISSB published draft prototypes for general sustainability disclosures and climate-related disclosures and announced that Canada will have a leading role in supporting the ISSB through a Montreal office. It is important that Canadian capital markets are integrated into and consistent with the evolving international landscape related to sustainability and climate-related disclosures and the ISSB. That said, we recognize that a significant amount of work will be required by the ISSB before these prototypes crystalize into international standards. As such, and as proposed, the CSA should not wait to begin requiring climate-related disclosures but should embed in its processes and priorities a more iterative and frequent review and update of the disclosure requirements as international practice, regulation and data in this area continue to evolve. This nimble approach could help keep Canadian capital markets globally competitive.

C. Efforts should be undertaken to apply disclosure requirements to all organizations, not just reporting issuers

While Proposed National Instrument 51-107 *Disclosure of Climate-related Matters* is limited to reporting issuers, efforts should be undertaken to encourage parallel requirements for non-reporting issuers as has been done in other jurisdictions, like the United Kingdom. Climate-related disclosure requirements should not hinder capital formation and indeed, good disclosure could enhance access to foreign investors that are increasingly seeking climate-related disclosure.

Comments in response to specific questions

> ***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?*

Issuers should be required to disclose if they have undertaken scenario analysis or their reasons for not conducting scenario analysis. If issuers have undertaken scenario analysis, they should disclose sufficient information to enable investors to understand the rigor behind the assumptions made and at least one scenario should contemplate limiting warming to 1.5C with limited to no overshoot and one scenario should correspond with the issuer's current expectations, estimates, projections, and assumptions.

Under a phased-in approach, issuers should be required to undertake and disclose scenario analysis starting with annual filings due in 2024 for non-venture issuers and all issuers in high emitting sectors and then all other issuers starting with annual filings due in 2026. As data and methodologies improve and convergence around a consistent set of scenarios emerges, disclosure should become mandatory.

The CSA should support the dissemination and use of common scenarios and climate risk variables (such as those published by the Network for Greening the Financial system) to facilitate scenario analysis by issuers of all sizes and to facilitate analysis by investors.

The accelerating shift toward aligning strategy to transitioning to a low carbon economy and achieving net zero emissions by 2050 is shaping the assumptions often used in scenario analysis. As an increasing number of nations, companies and investors adopt and execute on net-zero transition plans, the likelihood and impact of transition risk will grow. This underlines the importance for companies to undertake analysis, in particular analysis that includes accelerated timelines for transition and the need for companies to develop net-zero transition plans.

As noted in our overall comments, **issuers should be required to disclose plans to transition to a low carbon economy supportive of the goals of the Paris Agreement**.

Disclosure of these transition plans, including how an issuer intends to accomplish its GHG emission reduction commitments and targets is decision-useful to investors in evaluating the credibility of the plan and in measuring progress towards stated targets over time. Notably, in the ISSB climate-related disclosure prototype, the disclosure of transition plans is included as a required disclosure aligned with the TCFD requirement to describe the impact of significant climate-related risks and opportunities on the organization's business, strategy, and financial planning (please see prototype at paragraph 5(c) which incorporates by reference specific disclosures related to transition plans at paragraph 8). We recommend that the Companion Policy be updated to incorporate an expectation of similar disclosure of transition plans within the "strategy" component. A lack of disclosure in this regard will put Canadian capital markets out of step with global investor expectations, reducing competitiveness and raising the cost of capital.

Finally, the Proposed Instrument does not include a 'safe harbour' for climate-related disclosures. Both the Final Report of the Expert Panel on Sustainable Finance and the Ontario Capital Markets Modernization Taskforce raised the notion of a safe harbour provision to encourage enhanced reporting and many investors supported this proposal in their responses to the Taskforce.

***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?*

Issuers must be required to disclose Scope 1 and Scope 2 GHG emissions and the related risks. Issuers should also be required to disclose Scope 3 GHG emissions and the related risks if the issuer deems them to be relevant.

Allowing issuers to explain why they have not disclosed Scope 1 and/or Scope 2 GHG emissions, as contemplated in the Proposed Instrument, is not appropriate.

Climate change is a systemic risk to economies and communities. For investors to make more informed decisions, all issuers should disclose their Scope 1 and Scope 2 GHG emissions annually. There should not be an option for covered issuers to avoid disclosing this information as it is important information relating to how an organization is managing climate-related risks and opportunities.

It is not practical or helpful to make only Scope 1 GHG emissions disclosure mandatory. This would position Canadian issuers behind what is happening in other markets. It would also impact the credibility of the overall Canadian approach to the global transition to net zero GHG emissions.

The TCFD recommendations specify that all organizations should disclose absolute Scope 1 and Scope 2 GHG emissions independent of a materiality assessment. The disclosure of Scope 3 GHG emissions can be subject to a materiality test; however, the recommendations encourage all organizations to disclose such emissions. There is recognition that financial organizations may have challenges with quantification, but they are encouraged to provide quantitative and qualitative information and to disclose the methodologies and data used.

Under the Partnership for Carbon Accounting Financials Global GHG Accounting and Reporting Standard for the Financial Industry, financial institutions are supposed to disclose financed absolute Scope 3 GHG emissions in a phased in approach starting with oil and gas and mining in 2021, transportation, construction, buildings, materials, and industrial activities in 2024 and all sectors by 2026 which is in line developments in the European Union. Financed Scope 1 and Scope 2 GHG emissions are already supposed to be disclosed by financial institutions.

Scope 3 GHG emissions are a critical aspect of understanding climate-related risks and opportunities as highlighted by the TCFD and ISSB. A growing body of research shows that in certain sectors, Scope 3 GHG emissions can account for several times the impact of a company's Scope 1 and Scope 2 GHG emissions.

***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?*

Yes, **the use of the GHG Protocol should be mandated with no substitutes for all issuers**. A core objective of mandatory climate-related disclosure is to provide comparable data. As such, it is in the best interests of all actors to utilize a consistent, and mandated standard.

The GHG Protocol is the most widely used methodology and other methodologies build on the GHG Protocol Scope 3 accounting rules. For example, the Partnership for Carbon Accounting Financials (PCAF) Global GHG Accounting and Reporting Standard for the Financial Industry, uses the GHG Protocol in its methodology. As PCAF is emerging as the central standard used by the financial sector to assess its financed emissions, aligning mandatory reporting requirements with the GHG Protocol will provide important consistency.

Issuers should not have the flexibility to use alternative reporting standards.

> ***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?*

Yes, **some form of assurance on GHG emissions reporting should be required**. In the short term, issuers could be allowed to explain why they have not sought assurance, but mandatory assurance should be phased-in starting with non-venture issuers and all issuers in high emitting sectors required to provide assurance starting with annual filings due in 2024 and all other issuers required to provide assurance starting with annual filings due in 2026.

Independent assurance on the accuracy, completeness, and consistency of GHG emissions data would be beneficial to both internal decision-making for issuers and for investors and other external stakeholders.

Requiring the disclosure be in the MD&A would provide some comfort that there is some assurance and board oversight.

> ***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?*

No, **all required reporting should be in one document**, the MD&A. Requiring the disclosure be in the MD&A would provide comfort that there is some assurance and board oversight. It will also make it easier for investors to consume and make use of the information. Please see our responses to question 7 regarding assurance and to question 4 regarding the provision of safe harbour.

> ***11**. What are the anticipated costs and challenges associated with providing the disclosures contemplated by the Proposed Instrument?*

It is reasonable to anticipate that issuers will have to bear costs associated with preparing the disclosures and investors will have to bear the costs associated with understanding the disclosures.

The potential cost of not transitioning to a low carbon economy greatly outweighs any issuers' compliance or legal costs and any investors' analysis costs.

> ***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?*

There is potential for confusion. Existing risk disclosure requirements are subject to a materiality test, whereas the required risk management disclosures under the TCFD recommendations are not and the disclosures are focused on process rather than assessments of specific risks. Descriptions of specific climate related risks (and opportunities) identified and potential impacts on business are required under the strategy disclosures in respect of TCFD recommendations. This should be clarified in the Proposed Policy.

> ***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.*
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> - *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?*

More than two years have passed since the Expert Panel on Sustainable Finance recommended a phased-in approach to the adoption of the TCFD recommendations in Canada and more than a year has passed since Canadian investors last formally submitted comments on climate disclosure recommendations via the Ontario Capital Markets Modernization process and **we cannot keep delaying mandatory disclosure.**

We agree, in principle, with a phased in approach based on the nature of the disclosure, with governance, strategy, and risk management required in the first year for all issuers and full implementation for non-venture issuers within one year of the effective date. These pillars of disclosure are not contingent on materiality assessments and are the building blocks required for companies to progress toward other required components of the proposed disclosure.

Larger, more sophisticated, issuers are already making some climate-related disclosures including with respect to GHG emissions.

We recognize that smaller issuers with fewer resources may require additional time to fully adopt the proposed climate-related disclosure regime. The Proposed Instrument, however, does not encourage non-venture issuers to implement the disclosure requirements in an incremental and iterative manner wherein they can build on work year over year. Therefore, we do not agree with the CSA's proposed approach with respect to venture issuers.

The Proposed Instrument's approach of allowing a three-year period before venture issuers are required to make any disclosures creates too long of a gap where no information is mandated to be made available to investors. We are of the view that the approach recommended by the CSA will be resource intensive for venture issuers because it is not a phased-in implementation for them rather it is a delayed reporting requirement that creates the expectation that they will have complete reporting under all four pillars after three years. This has the potential to create a heavily resource intensive "compliance crunch" in year three rather than a smooth ramp up that would allow a more efficient allocation of time and resources as expertise within the company grows. This was the intended process for TCFD and why it is colloquially described as a journey.

Canada needs to be competitive on a global scale. As a resource-based economy, our companies need access to a global diversified investor base. On climate-related matters, demonstrating how Canadian companies are managing climate-related risks and impacts will be critical to success. The direction of travel is clear on this. Canadian companies need to position themselves well ahead of quickly evolving disclosure expectations. Canada can show leadership in this area, but that will not happen by taking incremental steps that will be quickly exceeded in other jurisdictions in a very short timeframe.

Stakeholder expectations are rising even faster than policy and regulations, increasing the risk to issuers of increased costs of capital arising from the lack of disclosure.

> ***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?*

Investors need consistent, comparable, and relevant information on environmental, social and governance risks that are industry-specific and financially material to a company's operations. Some ESG issues, notably climate change, are systemic and have the potential to impact all businesses in varying degrees. Other issues are industry or sector specific.

The Sustainability Accounting Standards Board (SASB) has developed 77 industry-specific standards that outline and provide guidance for each industry on the minimum set of likely financially-material sustainability topics and metrics that companies ought to regularly disclose. Their rapid and global adoption is due in part to their emphasis on financial materiality and industry-specific information related to risks and opportunities most likely to affect a company's financial condition (i.e., its balance sheet), operating performance (i.e., its income statement), or risk profile (i.e., its market valuation and costs of capital) in the near, medium, or long term. The SASB framework also allows for the issuer to determine the material industry-specific metrics, given its unique circumstances.

During 2021, SASB merged with the IIRC to create the Value Reporting Foundation. In November 2021, it was announced that the Value Reporting Foundation would also merge with the Carbon Disclosure Standards Board and all three would be rolled into the IFRS as part of the establishment of the new International Sustainability Standards Board (ISSB). At the same time the Technical Readiness Working Group (TRWG), chaired by the IFRS Foundation released a summary of its programme of work along with two sustainability prototypes: one focused on climate disclosures and the other on general requirements for disclosure for sustainability related financial information.

These documents and the approach taken therein are instructive to the CSA as it works through how to expand sustainability reporting beyond climate change-related disclosures. The approach taken by the TRWG, similar to the CSA, is to follow a "climate first" approach to disclosure while simultaneously providing guidance as to general disclosure requirements relevant to material sustainability issues and signaling its intention to work on identifying other relevant systemic ESG issues that have a "pervasive relevance for enterprise value across entities regardless of their industry and therefore result in comparable market-wide disclosures across industries on a given theme ("thematic requirements")."

While the prototypes are still nascent, and we are not purporting to comment on their substantive content in this submission, we agree with the approach: climate first, general guidance on ESG disclosures followed by specific guidance on 'cross-cutting themes'.

With respect to the general requirements guidance, the direction of travel indicated in the ISSB's prototype leverages the application of established global frameworks such as SASB when making determinations as to material sustainability disclosures in the absence of a specific or thematic standard. In addition, it aligns disclosure with the four pillars of TCFD: governance, risk management, strategy and metrics and targets.

This approach corresponds to our view that mandatory disclosure of material ESG information should also be aligned with the TCFD framework. Whereas SASB lays out the potentially material ESG issues and metrics by sector relevance, TCFD provides a framework to holistically assess governance, strategy, and risk management. Importantly, the TCFD provides a forward-looking component through the discussion and disclosure on scenario analysis, and the framework can also be used in conjunction with the SASB standards to identify relevant reporting metrics that are industry specific.

The ISSB prototype is also consistent with the view that alignment with both SASB and TCFD does not absolve companies of the responsibility to determine for themselves what their material risks are, nor should it limit what a company decides to report on. Investors need to understand how a company is identifying, measuring, and managing its ESG risks and opportunities to properly assess its value over the long-term. In other words, the process a company utilizes to determine what information is material enough to disclose is also a critical piece of information for investors. Until specific ISSB standards are developed, SASB standards can help companies and investors identify and more fully understand financially-material sustainability risks and opportunities.

While each company's circumstances may differ, the board of directors and management should be accountable for assessing the long-term impact of ESG risks and opportunities on the company's operations. This materiality assessment and discussion on the methodology used to perform such an assessment should be a part of disclosure requirements. This is already common practice in the Canadian market and should be mandated as part of any ESG disclosures.

With respect to specific thematic issues, we encourage the CSA to continue to align its work in this regard with global disclosures as well as domestically relevant topics. We note that the SEC has announced an intention for specific rule making on human capital management and SASB has been working on a human capital management framework and Canada has begun consultations for new statutory disclosures related to employee, retiree, and pensioner well-being. The work done by the Taskforce on Nature-Related Financial Disclosure on biodiversity and nature, is also emerging as a thematic area, as the Dasgupta Report has highlighted that the current decline rate of biodiversity is unsustainable. We further note that there is increasing global and domestic focus on diversity on boards and at the executive level (which is the subject of a separate and ongoing CSA consultation). Finally, in the Canadian context the issue of Indigenous reconciliation and Call to Action 92 is an important ESG consideration for investors and companies.