Interim Report of the Expert Panel on Sustainable Finance

CDSB and CDP joint consultation response

The Climate Disclosure Standards Board (CDSB) and CDP welcome the opportunity to respond to the Interim Report of the Expert Panel on Sustainable Finance.

CDSB is an international consortium of nine business and environmental NGOs. CDSB is committed to advancing and aligning the global mainstream corporate reporting model to equate natural capital with financial capital. CDSB does this by offering companies a framework for reporting environmental and climate information with the same rigour as financial information. In turn, this helps companies to provide investors with decision-useful environmental and climate information via the mainstream corporate report, enhancing the efficient allocation of capital. Regulators also benefit from compliance-ready materials. Recognising that information about natural capital and financial capital is equally essential for an understanding of corporate performance, CDSB's work builds the trust and transparency needed to foster resilient capital markets.

CDP is a global environmental impact non-profit working to secure a thriving economy that works for people and planet. High quality, relevant information is the fundamental basis for action and CDP helps investors, companies and cities to measure, understand and address their environmental impact. The world's economy looks to CDP as the gold standard of environmental reporting with the richest and most comprehensive dataset on corporate and city action. CDP aims to make environmental reporting mainstream and provide the detailed insights and analysis to drive the urgent action needed for a climate safe, water secure, deforestation free world. CDP recognises the important role of the Task Force on Climate-related Financial Disclosures (TCFD) in mainstreaming climate-related information and advancing the availability of financially relevant information for global markets. Therefore, CDP has aligned its information requests with the TCFD recommendations, alongside introducing a sectoral focus and adopting a forward-looking approach to climate risk disclosure.

Collectively, CDP and CDSB aim to contribute to more sustainable economic, social and environmental systems.

We welcome the findings of Expert Panel's Interim Report on Sustainable Finance (the Report). The Report highlights the urgent need to align Canada's financial system with a 1.5ºC decarbonisation pathway. It clearly states the importance of implementing the TCFD's recommendations in Canada to catalyse the flow of capital in support of achieving a low-carbon and climate-resilient economy.
Given that the level and quality of climate-related financial disclosures is not yet sufficient to support the timely transition to a low-carbon and climate-resilient economy before 2030, as set by Canada's Nationally Determined Contribution (NDC) to the United Nations Framework Convention on Climate Change (UNFCCC), we conclude that mandatory implementation of the 11 TCFD recommended disclosures in Canada is urgently needed.

We believe, however, that conditions are ripe for such mandatory TCFD implementation in Canada and propose two possible pathways to achieve this:

- Updating Provincial and Territorial securities regulation through the Canadian Securities Administrators; or
- Updating federal legislation through the Canada Business Corporations Act (R.S.C 1985, c C-44).

We also propose measures to support this implementation and streamline reporting by companies during this process, for example by:

- Enhancing reporting expertise through specific education and guidance developed by professional bodies and industry associations; and
- Enhancing the dialogue around and supervision of climate-related financial disclosures.

Canada has taken a leadership role internationally in promoting the uptake of the TCFD implementations during its Presidency of the G7. We believe that it is in the best interest of its economy to build on this momentum and leadership this year, both through its membership in the G7, G20 and the United Nations. Many of Canada's counterparts in the G7 and G20 are also considering mandatory implementation of the TCFD recommendations. Working together with other countries on this matter supports the creation a level playing field internationally and ensures that Canada firmly positions itself as a leader in the field of sustainable finance.

For other possible measures, we encourage the Expert Panel to refer to the report "*Leveraging Sustainable Finance Leadership in Canada*"[1]

While the risks to Canada's businesses and its economy outlined in the Report are grave, we believe that taking measures now to address these creates opportunities by safeguarding businesses, investors and savers from the impacts of dangerous climate change, as well as making Canada's economy more attractive by positioning the Canadian financial system as forward-thinking and resilient in an uncertain future.

Please would welcome an ongoing conversation with the Expert Panel to understand how we could support its work.

Kind regards,

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[1] International Institute for Sustainable Development (2019) Leveraging Sustainable Finance Leadership in Canada: Opportunities to align financial policies to support clean growth and a sustainable Canadian economy. [PDF]. Available at: https://www.iisd.org/sites/default/files/publications/leveraging-sustainable-finance-canada.pdf

3.1 Clarity on Climate and Carbon Policy

What information around the execution, investment opportunity, and intended outcomes for each key element of the PCF would be most helpful in providing the necessary clarity and certainty to engage large pools of capital?

Through our engagement with the market in Canada, we found a gap in the understanding of the timelines and risks associated with climate change. While this is not unique to Canada, climate change, its financial impacts and the timeline of the transition to a low carbon and climate resilient economy is not well understood. As a consequence, it is not sufficiently incorporated into business and investment decisions. Information about timelines for decarbonisation, as well as the financial opportunities and risks of investments and lending associated with climate change would also help in communicating the importance of sustainable finance.

What other critical policy gaps, inconsistencies or confusions are hampering the flow of sustainable finance in Canada overall? And specifically concerning sustainable infrastructure, innovation/cleantech investment, and promoting energy efficiency?

While Canada has ratified the Paris Agreement and committed to the UN Sustainable Development Goals (SDGs), these commitments could greatly benefit from enhanced integration into financial policy. A realistic transition pathway developed in consultation with market participants and in line with climate science is crucial throughout various Federal and Provincial financial regulations.
We encourage the Expert Panel to refer to the report "Leveraging Sustainable Finance Leadership in Canada"[2] for a set of comprehensive recommendations on supporting this effort, as summarised in the Table 1 below:

	2019	2020	2021
Filling in the gaps in the financial system	TSX joins the Sustainable Stock Exchange Initiative and includes TCFD in its "Primer for Environmental and Social Disclosure"	National Instrument 51-102, 58-101 and CSA Staff Notice 51-333 are updated to reflect the TCFD recommendations	
		TSX updates its company listing manual to include the TCFD recommendations	Environment and Climate Change Canada legislates on climate-adaptation reporting by all federal public entities
	The Canadian Business Corporation Act-Part XIV Financial Disclosure is updated with requirements for financial statements to include environmental disclosures		Natural Resources Canada legislates on climate-adaptation reporting by companies in natural resources sectors
Adding clarity in the financial system	In its 2019 Financial System Review, the Bank of Canada includes mainstreaming disclosure of climate-related risks and opportunities		The Department of Finance announces the degree to which the TCFD is consistent with its long-term approach to the financial sector
	The OSFI joins the Network of Central Banks and Supervisory Authorities for the Greening of the Financial System	The OSFI sends ESG information requests to its institutions and asks its Chief Actuary to produce a climate risk assessment of the Canada Pension Plan investment board	The OSFI's Chief Actuary releases its first report on climate risks for the Canada Pension Plan Investment Board
	The members of the CSA request CPD modules for corporate directors include TCFD, and conduct a review of their members' supervisory practices for climate disclosures		The CSA supervises the reporting by financial institutions on TCFD & ESG
Addressing inconsistencies in the financial system	CPA Canada creates a committee on climate disclosure and assurance to report to IASB	The committee issues its first report to IASB as well as to country equivalents of CPA Canada	CPA Canada responds to guidance from the IASB on disclosure of climate scenarios and ESG factors
	IIROC asks the CSI for a proposal to develop & measure ESG in financial statements		

Table 1 Three-year plan for mandatory climate disclosure as a foundation for sustainable finance (Canada). Source: Leveraging Sustainable Finance Leadership in Canada, IISD

[2] International Institute for Sustainable Development (2019) Leveraging Sustainable Finance Leadership in Canada: Opportunities to align financial policies to support clean growth and a sustainable Canadian economy. [PDF]. Available at: https://www.iisd.org/sites/default/files/publications/leveraging-sustainable-finance-canada.pdf

3.2 Reliable Information

Given the breadth of data needs across industries and roles, what critical areas of data would meet the widest need and should be prioritized? What are the best sources of that information today?

We would argue that, while more data could always be helpful, there is ample publicly available, reliable and centralised scientific climate data sources for Canada and globally. We refer the Panel to the following resources, among many others:

- Climate trends and projections, Environment and Climate Change Canada[3]
- Canadian Climate Data and Scenarios, Environment and Climate Change Canada[4]
- Climate Watch[5]

As mentioned in the Expert Panel's Interim Report (the Report hereon), there is a knowledge gap in the market about climate change and the existing resources available. Capacity building is therefore crucial. To this end, CDSB is developing e-learning courses for the TCFD Knowledge Hub[6] in partnership with professional bodies globally to contribute to this effort. To incentivise participation in learning, the courses will provide continuing professional development (CPD) credits wherever possible. The TCFD Hub aims to bring awareness of the existing resources available to the market and the course materials will draw on these materials.

Is there significant benefit to combining climate science with financial and economic information and analytics?

Yes, by linking the two, the financial impacts and dependencies of climate change become more tangible to financial actors. Highlighting these financial impacts may also contribute to addressing the perception highlighted in section 3.4 that "non-financial" matters are not financially material.

Is there a mutually acceptable means by which proprietary data can be leveraged for public good? If so, what would enable that?

Almost all of the climate data in question is publicly available. If this question refers to proprietary corporate data, there are avenues that can enable their use for public good. As an example, regulators could request such information confidentially from companies for its own use and publish aggregated data if needed. As in the case of climate data, much of such corporate information is also publicly available through the CDP website[7].

Could existing organizations collaborate or be combined and scaled to manage the collection, organization, and distribution of this information, or do we need to build an entity from the ground up? If collaboration is a possible means, who might the key players be, and with what mandate?

Given that the issue is predominantly with the lack of awareness of the information available, we do not see the need to create a new entity for this purpose.
We agree that collaboration is a useful means and would encourage market actors to form fora through which they can exchange experiences, good practices and address barriers they may face.

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[3] Environment and Climate Change Canada (2018) Climate trends and projections. [online]. Available at: https://www.canada.ca/en/environment-climate-change/services/climate-change/canadian-centre-climate-services/basics/trends-projections.html
[4] http://climate-scenarios.canada.ca/?page=main
[5] https://www.climatewatchdata.org/
[6] The TCFD Knowledge Hub provides insights and resources to implement the TCFD recommendations. Available at: https://www.tcfdhub.org/
[7] CDP (2019) Search and view past CDP responses. [Online]. Available at: https://www.cdp.net/en/responses

3.3 Effective Climate-Related Financial Disclosures

What would accelerate adoption of the TCFD disclosure framework? Are there any critical enablers or barriers to adoption that have not been discussed?

There has been significant progress through voluntary measures, through initiatives such as the CDP questionnaire[8] and application of the CDSB Framework[9]. Given the unsuccessful implementation of such reporting through guidance by the Canadian Securities Administrators[10], it is evident that for timely, market-wide adoption of the TCFD recommendations at the scale required to meet the climate challenge will require mandatory disclosures.

We see two potential pathways to mandatory TCFD implementation:

1. **At the Provincial and Territorial level**, the Canadian Securities Administrators could update National Instrument 51-102 Continuous Disclosure Obligations[11] and National Instrument 58-101 Disclosure of Corporate Governance Practices[12] to incorporate the TCFD 11 recommended disclosures of the TCFD recommendations.

   These mandatory instruments should be combined with an update to CSA Staff Notice 51-333 Environmental Reporting Guidance[13]. In addition, the guidance on corporate governance which is currently under development by the CSA will also be complementary.

   In our conversations with members of the CSA, we have found that there are varying levels of expertise and experience related to the supervision of climate-related and environmental matters. On the other hand, we saw that each provincial regulator has certain expertise that could benefit their counterparts. As such, we commend the current exchange between CSA members through the Climate change-related Disclosure Project. We encourage the CSA to include a review of various approaches in place to supervision and enforcement of reporting material climate-related information by its members. This could then be used as the basis for an exchange of experiences and techniques used by each securities authority as part of this project.

[8] CDP (2018) Disclosure in 2019. [Online]. Available from: https://www.cdp.net/en/companies-discloser/disclosure-info
[9] Climate Disclosure Standards Board (2017) CDSB Framework for reporting environmental information, natural capital and associated business impacts. [PDF]. Available from: https://cdsb.net/Framework
[10] Canadian Securities Administrators (2010) CSA Staff Notice 51-333 – Environmental Reporting Guidance. [PDF]. Available at: http://www.osc.gov.on.ca/documents/en/Securities-Category5/csa_20101027_51-333_environmental-reporting.pdf
[11] Alberta Securities Commission (2018) National Instrument 51-102 Continuous Disclosure Obligations. [PDF]. Available at: http://www.albertasecurities.com/Regulatory%20Instruments/5411820-v1-51-102_NI_Consolidation_Eff_June_12_2018.pdf
[12] British Columbia Securities Commission (2016) National Instrument 58-101 Disclosure of Corporate Governance Practices. [PDF]. Available at: https://www.bcsc.bc.ca/Securities_Law/Policies/Policy5/PDF/58-101__NI___December_31__2016/
[13] Canadian Securities Administrators (2010) CSA Staff Notice 51-333 – Environmental Reporting Guidance. [PDF]. Available at: http://www.osc.gov.on.ca/documents/en/Securities-Category5/csa_20101027_51-333_environmental-reporting.pdf

2. **At the Federal level**, there is a further opportunity to clarify reporting requirements under the Canada Business Corporations Act – Part XIV Financial Disclosure. This could entail updating the requirements for companies' annual financial statements to include the TCFD 11 recommended disclosures. 2018, c. 8, s. 24, which amended the Act to include certain diversity-related disclosure requirements, is a precedent to such an amendment. As such, the following could be added as an amendment to the Business Corporations Act:

xx The Act is amended by adding the following after section 172.1:
PART XIV.2

- ***Climate-related financial matters in corporations***

172.2 (1) *The directors of a prescribed corporation shall place before the shareholders, at every annual meeting, among the directors and among the members of senior management as defined by regulation, prescribed information disclosing:*

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 climate-related risks and opportunities the organization has identified over the short, medium, and long term, where such information is material;*
d. *The impact of climate-related risks and opportunities on the corporation's businesses, strategy, and financial planning, where such information is material;*
e. *The resilience of the corporation's strategy, taking into consideration different climate-related scenarios, including a 2°C or lower scenario, where such information is material;*
f. *The corporation's processes for identifying and assessing climate-related risks;*
g. *The corporation's processes for managing climate-related risks;*
h. *How processes for identifying, assessing, and managing climate-related risks are integrated into the corporation's overall risk management;*
i. *The metrics used by the corporation to assess climate-related risks and opportunities in line with its strategy and risk management process, where such information is material;*
j. *Scope 1, Scope 2, and, if appropriate, Scope 3 greenhouse gas (GHG) emissions, and the related risks, where such information is material; and*
k. *The targets used by the corporation to manage climate-related risks and opportunities and performance against targets, where such information is material.*

- ***Information to shareholders and Director***

(2) *The corporation shall provide the information referred to in subsection (1) to each shareholder, except to a shareholder who has informed the corporation in writing that they do not want to receive that information, by sending the information along with the notice referred to in subsection 135(1) or by making the information available along with a proxy circular referred to in subsection 150(1).*

- ***Information to Director***

(3) *The corporation shall concurrently send the information referred to in subsection (1) to the Director.*

Should the Government of Canada become an official supporter of the TCFD?

Yes, becoming an official supporter of the TCFD sends a signal to the market that the Government of Canada sees value in reporting in line with the TCFD recommendations. However, becoming a supporter of the TCFD does not necessarily mean that this will translate into action by Canadian companies to implementing the TCFD voluntarily.

Given the value of such reporting (as highlighted in the Report) and the need to act urgently within the timeline defined by the IPCC's Special Report[14] on 1.5ºC, we believe that the Government of Canada should at the same time announce a roadmap to mandatory TCFD implementation. This will send a clear signal to the market that mandatory reporting requirements will be put in place, giving preparers and other time to prepare and develop their internal capacities to implement the TCFD. This would take account of concerns expressed by the market to the Expert Panel about lack of experience in climate-related financial reporting by providing an incentive and time to prepare. In addition, this would create the demand for infrastructure to be put in place to support reporting entities as they prepare. This would also give assurance to companies to make the investments in preparing for climate-related disclosures. Moreover, investors can also prepare to make use of such disclosures in their capital allocation and decision-making. In contrast, a voluntary approach could result in a lengthy implementation process that could also incur unnecessary costs to report preparers and users and generate less consistent or comparable disclosures.

We also note that Canadian Minister of Environment and Climate Change, Minister Catherine McKenna has already expressed her support of the TCFD recommendations.

Holding the Presidency to the G7 last year, Canada has played an active leadership role in promoting the TCFD recommendations within the group both through diplomacy and by action through establishing the Expert Panel, as well as the CSA's Climate change-related Disclosure Project[15]. As part of its endorsement of the TCFD, Canada should continue its engagement within the G7 this year in promoting the TCFD recommendations and work with the French Presidency to convene a roundtable to discuss how the G7 could implement these recommendations within their respective jurisdictions.

Similarly, Canada can leverage its progress in this space to promote TCFD implementation within the G20, the current institutional home of the TCFD through the Financial Stability Board.

Is there a need for climate-related disclosures to be included in mainstream financial statements, or is that not necessary so long as other conditions are met (i.e. robust oversight and governance of the reporting process and quality)?

While this is sometimes debated, the TCFD recommendations are clear that such information should be reported in mainstream financial filings, unless it is not permitted by national, or in the case of Canada, also provincial law.

"*The Task Force recommends that preparers of climate-related financial disclosures provide such disclosures in their mainstream (i.e., public) annual financial filings. In most G20 jurisdictions, companies with public debt or equity have a legal obligation to disclose material information in their financial filings—including material climate-related information. The Task Force believes climate-related issues are or could be material for many organizations, and its recommendations should be useful to organizations in complying more effectively with existing disclosure obligations. In addition, disclosure in mainstream financial filings should foster shareholder engagement and broader use of climate-related financial disclosures, thus promoting a more informed understanding of climate-related risks and opportunities by investors and others. The Task Force also believes that publication of climate-related financial information in mainstream annual financial filings will help ensure that appropriate controls govern the production and disclosure of the required information. More specifically, the Task Force expects the governance processes for these disclosures would be similar to those used for existing public financial disclosures and would likely involve review by the chief financial officer and audit committee, as appropriate.*

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[14] Intergovernmental Panel on Climate Change (2018) Summary for Policymakers. In: Global Warming of 1.5 °C - an IPCC special report on the impacts of global warming of 1.5 °C above pre-industrial levels and related greenhouse gas emission pathways, in the context of strengthening the global response to the threat of climate change, sustainable development, and efforts to eradicate poverty. [PDF]. Available from: https://www.ipcc.ch/site/assets/uploads/sites/2/2018/07/SR15_SPM_High_Res.pdf
[15] Canadian Securities Administrators (2018) CSA Staff Notice 51-354 Report on Climate change-related Disclosure Project. [PDF]. Available at: https://lautorite.qc.ca/fileadmin/lautorite/reglementation/valeurs-mobilieres/0-avis-acvm-staff/2018/2018avril05-51-354-avis-acvm-en.pdf

Importantly, organizations should make financial disclosures in accordance with their national disclosure requirements. If certain elements of the recommendations are incompatible with national disclosure requirements for financial filings, the Task Force encourages organizations to disclose those elements in other official company reports that are issued at least annually, widely distributed and available to investors and others, and subject to internal governance processes that are the same or substantially similar to those used for financial reporting."[16]

CSA Staff Notice 51-333 – Environmental Reporting Guidance[17] states that reporting such information this is not only in line with National Instrument 51-102 Continuous Disclosure Obligations (NI 51-102), but "If there is any doubt about whether particular [environmental] information is material, we encourage issuers to err on the side of materiality and disclose the information."[18]

Should larger firms be looked upon to demonstrate leadership to small- and medium- sized enterprises?

As the Report notes, larger firms have the means to innovate in the ESG reporting space and many of the leaders in this space are large listed companies.

There is already a practice by companies of learning from and building on their peers' reporting. We believe that this is a useful practice that can reduce costs associated with innovation and promote comparability of the reported information across companies.

We also encourage Canadian firms to look at the reports of their peers in other jurisdictions to learn from the progress made internationally. We recognise the concern by Canadian companies that they may not have significant ESG reporting experience internally (as expressed in the Report), but also note that there is a significant and growing body of knowledge in this globally, as well as in many organisations in Canada. This means that those businesses looking to improve their reporting now do not face the same challenges as those that had to develop new reporting practices in the past when these did not exist.

Is there a need for further guidance on the relationship between climate-related risks and materiality? How can the understanding of what is material be improved?

The CSA's Environmental Reporting Guidance[19] provides extensive guidance on the materiality of environmental (including climate-related) information in mainstream filings, taking into account reporting legislation and building on voluntary reporting guidance, such as the CDSB Framework. The uptake of this guidance however was minimal. The evidence of nearly a decade since the introduction of the CSA Environmental Reporting Guidance would suggest that more proactive engagement by the Federal and Provincial Governments is needed. Increased enforcement by CSA members is therefore essential to ensuring that this guidance is used and material climate-related information is reported.

The relationship between climate-related information and materiality is discussed in numerous CDSB publications, including in the context of the TCFD recommendations in our Position paper on materiality and climate-related financial disclosures[20].

[16] Task Force on Climate-related Financial Disclosures (2017) Recommendations of the Task Force on Climate-related Financial Disclosures. [PDF]. Available from: https://www.fsb-tcfd.org/wp-content/uploads/2017/06/FINAL-TCFD-Report-062817.pdf
[17] Canadian Securities Administrators (2010) CSA Staff Notice 51-333 – Environmental Reporting Guidance [PDF]. Available at: http://www.osc.gov.on.ca/documents/en/Securities-Category5/csa_20101027_51-333_environmental-reporting.pdf
[18] This guiding principle has been derived from sources such as subsection 4.2(2) of NI 51-201. Source: ibid
[19] ibid
[20] Climate Disclosure Standards Board (2018) Position paper: Materiality and climate-related financial disclosures. [PDF]. Available from: https://www.cdsb.net/sites/default/files/materiality_and_tcfd_paper.pdf

Are there mechanisms that would help overcome the hesitation to make appropriate disclosures with uncertain information in good faith, such as some form of regulatory safe harbour?

Feedback from the companies we engage with would suggest that a regulatory safe harbour for such information would be helpful. Liability risk arising from reporting climate-related risks and forward-looking information is often cited by companies as a reason for not including such information in mainstream reports. Such provisions, combined with clear regulatory signals in *National Instrument 51-102 Continuous Disclosure Obligations (NI 51-102)* and/or *Part XIV – Financial Disclosure of the Canada Business Corporations Act (R.S.C., 1985, c. C-44)*, would greatly contribute to a supportive environment for climate-related reporting in Canada.

Are there any other standards that could be combined with the TCFD to reduce reporting burden?

Yes, a positive outcome of the TCFD was that major standard-setters could use its high-level recommendations as a common ground behind which to align.

Both CDSB and CDP have updated their questionnaire and framework respectively to align with the TCFD recommendations. The principles and requirements of the CDSB Framework are fully aligned with those of the TCFD. The annual CDP climate change questionnaire[21] has also been fully aligned with the TCFD recommendations and can help companies collect and structure the content needed for disclosures. Using CDP's disclosure system guarantees the comparability and standardisation of disclosures, produces insights for companies that go well beyond minimum standards, and ensures reported data is delivered to all relevant stakeholders and fed directly as a global standard into financial markets and products. To implement the TCFD recommendations, issuers can then use the CDSB Framework[22] to elicit material climate-related financial information and embed it in their mainstream filing.

CDSB and the Sustainability Accounting Standards Board has jointly produced guidance[23] for report preparers on using the CDSB Framework and SASB's standards to implement the TCFD recommendations, which was referenced in the Expert Panel's report. We hope that this guidance will prove to be useful and we plan to publish more specific guidance on this in the first half of 2019.

3.4 Clear Interpretation of Fiduciary Duty

What is the most effective method for delivering board education on climate risk and ESG/sustainability issues? Does education need to include guidance on effective governance and committee modeling for ESG oversight?

We commend the Expert Panel on identifying the importance of education on this topic to move the market forward. CDSB will be adding online e-learning courses to the TCFD Knowledge Hub[24] to support this effort and welcomes input from the Expert Panel and the Canadian market on what courses would be helpful to support them in enhancing sustainable finance.

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[21] CDP (2018) Disclosure in 2019. [Online]. Available from: https://www.cdp.net/en/companies-discloser/disclosure-info, and see also CDO (2018) CDP Technical Note on the TCFD: Disclosing in line with the TCFD's Recommendations. [PDF]. https://b8f65cb373b1b7b15feb-c70d8ead6ced550b4d987d7c03fcdd1d.ssl.cf3.rackcdn.com/cms/guidance_docs/pdfs/000/001/429/original/CDP-TCFD-technical-note.pdf?1512736184

[22] Climate Disclosure Standards Board (2017) CDSB Framework for reporting environmental information, natural capital and associated business impacts. [PDF]. Available from: https://cdsb.net/Framework

[23] CDSB and SASB (2018) CLIMATE RISK: FROM PRINCIPLES TO PRACTICE Phase 1: SASB, CDSB, and TCFD Converge on a Global Approach to a Global Challenge. [PDF]. Available at: https://www.cdsb.net/sites/default/files/final.climate-risk-principlestopractice-092518.pdf

[24] TCFD and CDSB (2018) TCFD Knowledge Hub. [Online]. Available at: https://www.tcfdhub.org/

3.5 A Knowledgeable Financial Support Ecosystem

Given the breadth of climate-related considerations and diverse needs across industries, what professional services are most critical today? What are the crosscutting challenges and opportunities that they should focus on first?

We believe that all market actors are critical in addressing the systemic challenge of sustainable finance. We would like to highlight the important role of the accounting profession in supporting the preparation of decision-useful climate change and environmental information in the investment chain.
Accounting standards have developed over many years to bring rigour and controls to financial reporting in order to improve the quality of information and build trust in its users. ESG reporting can benefit from these standards and processes to address these same challenges. CPA Canada has been proactive in providing training and forums for discussion within the accounting profession in Canada to raise awareness of the TCFD recommendations. We see this as a crucial part of the solution to embedding sustainable finance in Canada.

What catalysts might accelerate investment in building the necessary capabilities and capacity?

As the Expert Panel has highlighted, more expertise on the subject of sustainable finance and reporting is needed. By including these topics in curricula of relevant courses, including MBA Programmes, CPA and CFA, as well as providing Continuous Professional Development (CPD) points for professional courses as an incentive, the knowledge gap in this space could be progressively eliminated. As mentioned elsewhere in these comments, CDSB will be developing e-learning courses on TCFD implementation as part of the TCFD Knowledge Hub[25] and will be working to obtain CPD certification globally for these where possible.

In self-regulated segments of the financial support ecosystem, can associations effectively deliver necessary education and awareness amongst constituents? If so, should relevant authorities ask that associations develop plans for effecting change among their constituents? Would mandatory training programs on key topics be effective?

From a reporting perspective, there is value in associations to coordinate their sectors to develop industry-level reporting practices on matters specific to their sectors. While much of the metrics and aspects covered in reports can be considered universal, there are elements that are specific to certain sectors. This would build capacity within constituents and provide standardised, comparable and industry-specific information to analysts and other investors.

How might the various professional bodies (CFA, CPA, SOA, etc.) coordinate efforts to consistently and efficiently mobilize change and align on best practices in ESG education and capacity?

Given the systemic nature of this issue, there is value in an ongoing exchange of experiences and capacity development needs amongst the relevant professions. For example, CPAs preparing corporate reports would benefit from better understanding the needs of CFAs as the readers of these reports.

How could the industry do a better job of plugging into international initiatives?

We believe that there are a number of international initiatives which would welcome increased involvement from Canada. We do not see a barrier for Canadian industry to join such initiatives and encourage all market actors to accept invitations to do so.
We note and commend that, since the publishing of the Report, the Toronto Stock Exchange (TSX) has joined the Sustainable Stock Exchanges Initiative (SSEI). As members of the SSEI, we look forward to working with TSX through this group.

[25] ibid

We also encourage the Bank of Canada to join the Network for Greening the Financial System, a group of Central Banks and Supervisors willing, on a voluntary basis, to exchange experiences, share good practices, contribute to the development of environment and climate risk management in the financial sector, and to mobilise mainstream finance to support the transition toward a sustainable, climate-resilient and low carbon economy.

Countries like the UK and China have set up direct partnerships to promote collaboration in the field of sustainable finance. Similar partnerships between Canada and other countries could also create a platform for direct collaboration of Canadian industry with others and promote Canadian interests and business abroad.

Should ESG aspects be integrated into university curricula to build competency and awareness among future professionals prior to entering the workforce?

Yes, ensuring ESG aspects (including linkages between financial information and environmental/climate information) are taught at the same time as other financial elements can help to address the issue identified by the Expert Panel that weighing ESG considerations transgress fiduciary duties.

3.6 Relevant and Consistent Financial Regulations

Are climate risks different than other material financial risks? How could climate risk be best integrated into the financial regulatory oversight process?

In the context of financial statements, auditors set the materiality for the financial statements as a whole at the planning stage (we note however that ultimate responsibility for the content of financial statements lies with the directors). This is expressed as a level (usually a percentage) of an appropriate quantitative benchmark. This benchmarking approach is challenging in the context of qualitative information, such as that included in mainstream filings, listing particulars (such as prospectuses), etc. While this qualitative information is materially significant, it is not expressed numerically. Auditors and directors are also required to consider the nature of an item, not just the size. Therefore, an item that is not quantitatively material, can still be qualitatively material, i.e. material by nature. This assessment can pose challenges. Nevertheless, the *concept* of materiality is used in regulatory guidance about how to determine what information should be included in any of these reports.

Moreover, issuers face difficulties relating to the specific nature of climate risks and opportunities, including, among others:

- limited knowledge of climate-related issues within organisations;
- preconceptions about the nature of climate change which lead to an initial bias in the assessment of climate risk;
- the tendency to focus mainly on near-term risks with inadequate attention paid to potential long-term risks. The time horizon over which financial risks from climate change may be realised are uncertain, and their full impact may occur outside many business planning horizons; and
- difficulties translating and equating climate risk with financial risks and/or opportunities.

The "materiality filter" applies to certain TCFD recommendations and not to *Governance* and *Risk Management*. As climate-related risk is a non-diversifiable risk that affects nearly all sectors, many investors believe it requires special attention. In assessing organisations' financial and operating results, many investors seek insights into the governance and risk management context in which such results are achieved.[26]

[26] Task Force on Climate-related Financial Disclosures, 2017. Final Report - Recommendations on the Task Force on Climate-related Financial Disclosures. [Online]. Available at: https://www.fsb-tcfd.org/wp-content/uploads/2017/06/FINAL-2017-TCFD-Report-11052018.pdf, p.33.

The issue of materiality plays out in a unique way in relation to scenario analysis. The TCFD recommends that where management deems it material, it should describe 'the resilience of the organization's strategy, taking into consideration different climate-related scenarios, including a 2°C or lower scenario.' A question arises as to how can organisations assess the materiality of different climate-related scenarios without conducting scenario analysis? We interpret this materiality threshold as applying to the disclosure of the outcomes of scenario analysis. Where an organisation does not disclose information related to scenario analysis, investors could infer that management is not using scenario analysis to assess climate risks, even if the company has conducted such analysis.

For corporate boards disinclined to consider potential climate-related financial impacts, a lack of material significance can be cited as the rationale for non-disclosure. This is of concern, given the Sustainability Accounting Standards Board's Technical Bulletin's finding that climate change is likely to have material financial impacts on companies in 72 out of 79 industries, representing 93% of the U.S. equity market, or US$27.5 trillion.[27] As a non-diversifiable risk that affects nearly all industries, the Financial Stability Board and many investors believe climate change merits special attention.

In light of these issues, more guidance to issuers by the CSA about how the current regulatory regime might be interpreted to apply to climate change-related risks could be useful but not sufficient. We note *CSA Staff Notice 51-333 - Environmental Reporting Guidance*[28], which provided clear and useful guidance to issuers, but was not applied widely. Requiring TCFD disclosures would greatly assist in addressing the problems caused by the misapplication of materiality to the unique financial risks posed by climate change. Action by members of the CSA on this issue are in accordance with their broad objectives to protect investors, foster fair and efficient markets, and contribute to the stability of the financial system.

CDSB has considered the established treatment of materiality in the context of the TCFD in a discussion paper[29], which may provide useful guidance for the Expert Panel to draw upon.

We also recognise that enhanced guidance in this area will need to be combined with effective enforcement by the CSA to ensure it is implemented in practice.

Is there an appropriate dialogue to be had between financial regulators and interested private sector organizations and relevant bodies?

Yes, as stated throughout our comments, we believe that mandatory reporting requirements, combined with proactive enforcement, is needed in Canada to implement decision-useful climate-related reporting. Building on the CSA's engagement in this area, CSA members could engage with the private sector and relevant organisations in the following ways:

- Hold online and written/in-person consultations on how to implement mandatory reporting requirements in a way that minimises the impact on issuers to the extent possible, as well as agree on a roadmap of implementing these requirements;
- Building on the model of the UK's Financial Reporting Council[30] and the EU's European Financial Reporting Advisory Group[31], the CSA could set up a Reporting Lab to work with the private sector in a safe environment on evolving reporting practices; and

[27] SASB, 2018. Climate Risk - Technical Bulletin. [Online]. Available at: https://library.sasb.org/climate-risktechnical-bulletin/
[28] Canadian Securities Administrators (2010) CSA Staff Notice 51-333 – Environmental Reporting Guidance [PDF]. Available at: http://www.osc.gov.on.ca/documents/en/Securities-Category5/csa_20101027_51-333_environmental-reporting.pdf
[29] Climate Disclosure Standards Board (2018) Position paper: Materiality and climate-related financial disclosures. [PDF]. Available from: https://www.cdsb.net/sites/default/files/materiality_and_tcfd_paper.pdf
[30] Financial Reporting Council (2018) Call for Participants in new Lab project: Climate and workforce reporting. [Online]. Available at: https://www.frc.org.uk/news/september-2018/call-for-participants-in-new-lab-project-climate
[31] European Financial Reporting Advisory Group (2019) Apply now to join the climate-related reporting task force. [Online]. Available at: http://www.efrag.org/News/Project-348/Apply-now-to-join-the-climate-related-reporting-task-force

- As the Provincial financial supervisors charged with overseeing corporate reporting, increase conversations with issuers that lack material information on climate-related matters in their mainstream filings.

What expectations, if any, should stock exchanges place on issuers regarding ESG disclosure?

While Canadian stock exchanges do not have regulatory powers, they can have significant influence on their issuers. Now that the TSX has joined the Sustainable Stock Exchanges Initiative (SSEI), it can participate with the SSEI's other members in updating its ESG disclosure guidance[32] (last updated in March 2014) to incorporate recent developments, including the TCFD.

[32] TSX and CPA Canada (2014) A Primer for Environmental & Social Disclosure. [PDF]. Available at: https://www.tsx.com/resource/en/73