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# Proposed National Instrument 51-107

## *Disclosure of Climate-related Matters*

Alberta Securities Commission

December 14, 2021



# Disclaimer

Any views expressed during this presentation are those of the presenters and do not necessarily reflect those of other members of the Canadian Securities Administrators (CSA) or their staff.

Information from CSA Notice and Request for Comment Proposed National Instrument 51-107 *Disclosure of Climate-related Matters* has been summarized and paraphrased for presentation purposes. This presentation is provided for general information purposes only and does not constitute legal or accounting advice.

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# Purpose

Consistent,  
comparable and  
decision-useful  
information

- Investors are increasingly focused on climate-related risks.
- Companies are responding to investor requests for climate-related information by way of “voluntary” reports, outside of the securities regulatory regime.

# Application and transition

## Application

The Proposed Instrument would apply to virtually all reporting issuers

- Exception: investment funds, issuers of asset-backed securities, designated foreign issuers, SEC foreign issuers, certain exchangeable security issuers and certain credit support issuers

## Transition

Proposed disclosure requirements would be phased in over a one-year period for non-venture issuers and over a three-year period for venture issuers

Category of issuer	Transition requirement
Non-venture issuer	Disclosure requirements would apply to annual filings for the financial year ended December 31, 2023.  These filings would be due in March 2024.
Venture issuer	Disclosure requirements would apply to annual filings for the financial year ended December 31, 2025.  These filings would be due in April 2026.



# International initiatives

## Task Force on Climate-related Financial Disclosure (TCFD)

- In 2015, the international Financial Stability Board (FSB) established a task force to develop recommendations for more effective climate-related disclosures.
- In 2017, the TCFD released its recommendations, providing a framework for climate-related disclosures.
- In 2021, the TCFD published a status report indicating it has over 2,600 supporting organizations globally, including ~1,600 financial institutions, responsible for \$194 trillion of assets.



# International initiatives

## Securities regulators

The CSA is among the first securities regulators in the world to publish climate-related disclosure rules for comment.

## National regulatory initiatives

- Canada – Canadian Securities Administrators
- U.K. – Financial Conduct Authority
- U.S. – Securities and Exchange Commission
- E.U. – European Commission
- Australia, New Zealand and Switzerland



# International initiatives

## IFRS ISSB

- International Financial Reporting Standards (IFRS) Foundation - International Sustainability Standards Board (ISSB)
- New international organization formed to develop sustainability disclosure standards
  - Offices in Montreal, Quebec and Frankfurt, Germany
  - First initiative will be climate disclosures, aligned with TCFD
- IFRS - Disclosure of Sustainability-related Financial Information Prototype published November 3, 2021

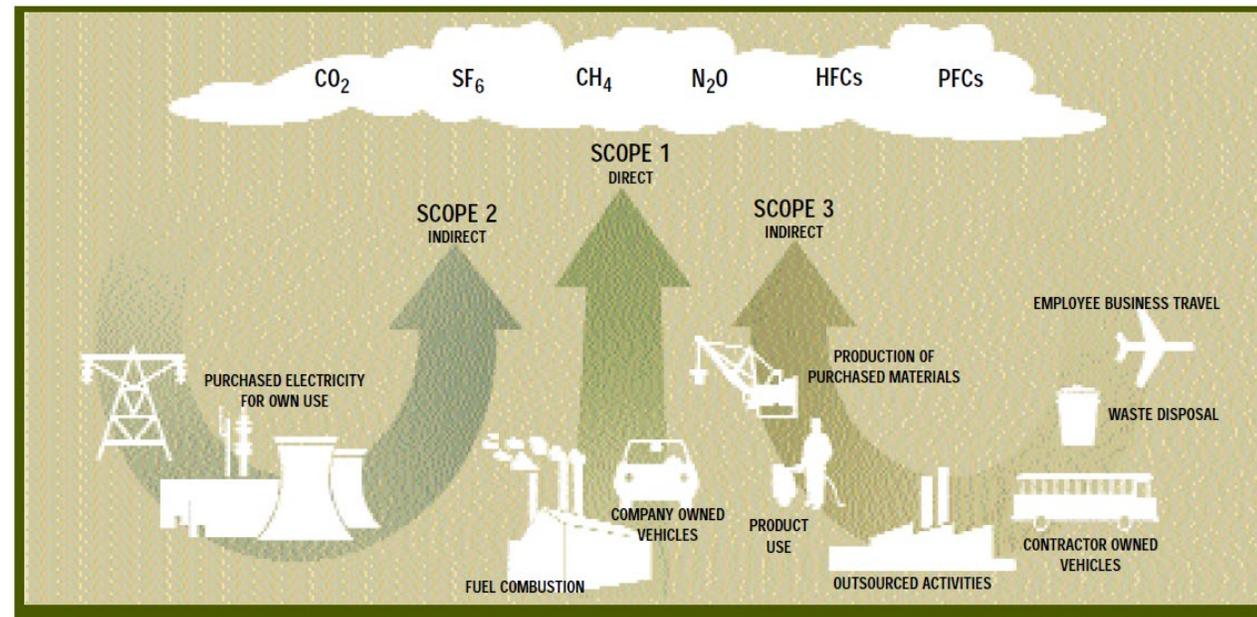
# Greenhouse gas emissions

- Greenhouse gas (GHG) emissions are classified in three scopes:
  - Scope 1 – direct emissions from owned or controlled sources
  - Scope 2 – indirect emissions from purchased electricity, steam, heating and cooling
  - Scope 3 – all other indirect emissions that occur in the value chain, both upstream and downstream of the company's operations

# Greenhouse gas emissions

## Calculating GHG emissions

- Greenhouse Gas Protocol (**GHGP**) is the global standard
  - Provides standards and guidance for emissions accounting and reporting



Source: GHGP

# Canadian disclosure requirements

## Existing guidance

The CSA has published guidance to help companies understand existing disclosure requirements relating to environmental and climate matters:

- 2019 - CSA Staff Notice 51-358 – *Disclosure of Climate-related Matters*
- 2018 - CSA Staff Notice 51-354 – *Report on Climate-related Disclosures Project*
- 2010 - CSA Staff Notice 51-333 – *Environmental Reporting Guidance*

## Proposed law

- CSA National Instrument 51-107 – *Disclosure of Climate-related Matters*
- Published October 18, 2021 for a 90-day comment period ending January 17, 2022

# 2021 climate-related disclosure review

Feature	Details from disclosure review
Who was selected?	<ul style="list-style-type: none"><li>• 48 issuers selected primarily from S&amp;P/TSX Composite Index (with market capitalization range of \$800 million to \$180 billion).</li><li>• Wide range of industries included in the review: finance and insurance, communications, consumer products, industrial, life sciences, healthcare, mining, oil and gas, oil and gas services, construction and engineering, pipelines, real estate, technology and utilities.</li></ul>

# 2021 climate-related disclosure review

Feature	Details from disclosure review
What topics were considered?	<ul style="list-style-type: none"><li>• Current disclosure practices in continuous disclosure (CD) filings, including:<ul style="list-style-type: none"><li>• A review of climate-related disclosure in relation to existing securities law disclosure requirements and guidance in Canada, with a focus on risk disclosure</li></ul></li><li>• Information in voluntary disclosure, including:<ul style="list-style-type: none"><li>• Potentially material climate-related information omitted from CD filings</li><li>• Climate-related disclosure frameworks</li><li>• GHG emissions-related metrics</li></ul></li></ul>

# 2021 climate-related disclosure review

Disclosure reviews showed positive climate-related disclosure efforts over time. However, there is room for improvement.

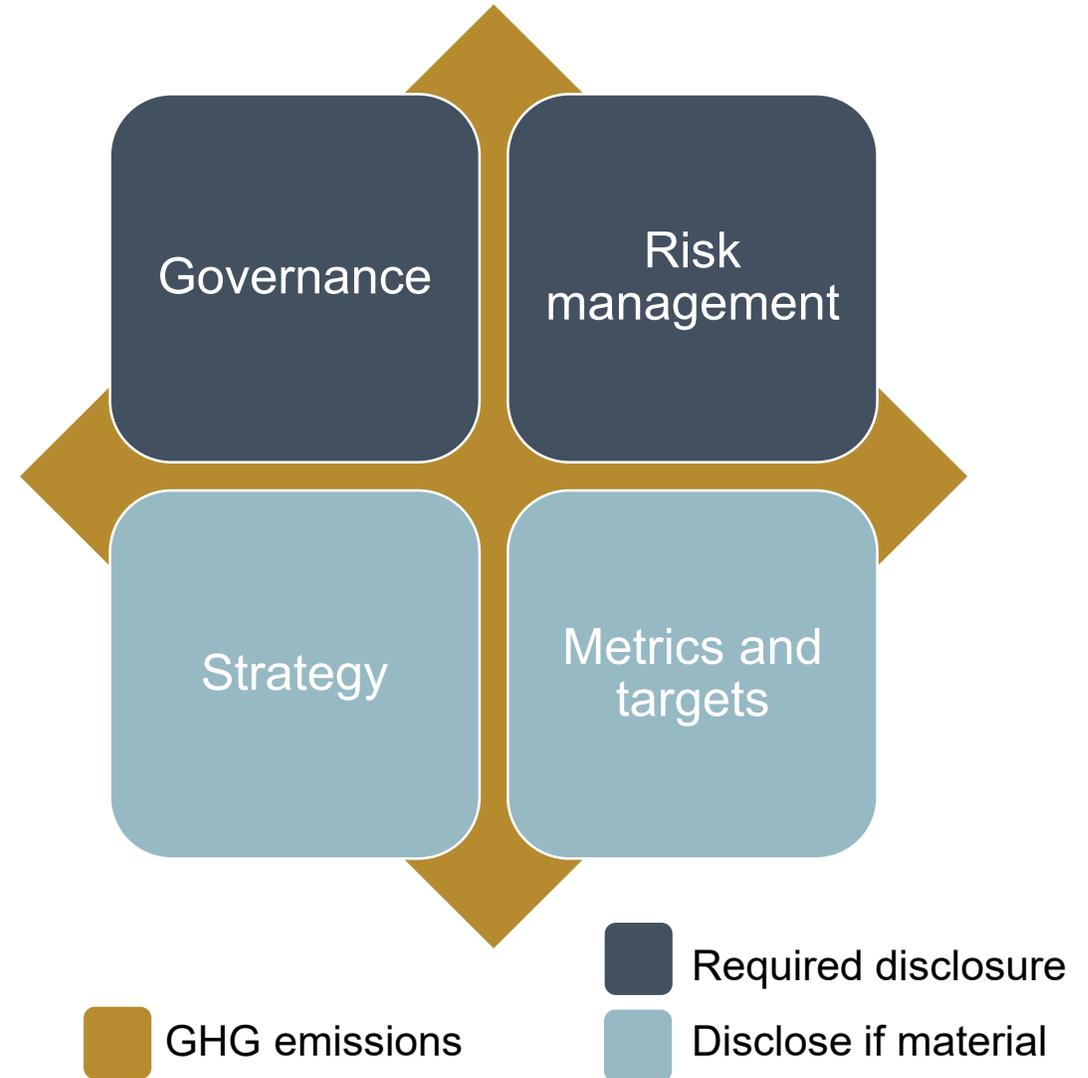
- Regulatory filings
- 92% disclosed climate-related risks
  - < 50% provided information about board oversight and how climate considerations relate to the company strategy
- Voluntary reports
- 92% provided climate-related information in a sustainability or ESG report
  - 82% disclosed GHG emissions
    - 39% disclosed Scope 1, 2 & 3 GHG emissions
    - 56% disclosed both Scope 1 & 2 GHG emissions
    - 5% disclosed only Scope 1 GHG emissions
  - 86% referenced at least one third-party framework and ~50% referenced three third-party frameworks
  - Selective reporting against multiple frameworks, raising “cherry-picking” concerns

# Proposed requirements

## Four core elements

### Materiality

- Unless disclosure is specifically required, materiality is the determining factor in any assessment of whether information is required to be disclosed in a company's regulatory filings.
- Information is material if a reasonable investor's decision to buy, sell or hold securities in an issuer would likely be influenced or changed if the information in question was omitted or misstated.





# Proposed requirements

## Governance and risk management

### Required disclosure

#### Governance

- Describe the board's oversight of climate-related risks and opportunities
- Describe management's role in assessing and managing climate-related risks and opportunities

#### Risk management

- Describe the company's processes for identifying, assessing and managing climate-related risks
- Describe how these processes are integrated into the company's overall risk management



# Proposed requirements

## Strategy and metrics and targets

### Disclose if material

#### Strategy

- Describe the climate-related risks and opportunities the company has identified over the short, medium and long-term
- Describe the impact of climate-related risks and opportunities on the company's business, strategy and financial planning

#### Metrics and targets

- Disclose the metrics used by the company to assess climate-related risks and opportunities
- Describe the targets used to manage climate-related risks and opportunities and performance against these targets



# Proposed requirements

## GHG emissions

### Disclose Scope 1, 2 and 3 GHG emissions and related risks

**Alternative 1:** Disclose Scope 1, 2 and 3 GHG emissions and related risks or the issuer's reasons for not disclosing this information (Scope 1, 2 & 3 - comply or explain)

**Alternative 2:** Disclose Scope 1 GHG emissions and related risks (a) when material or (b) in all cases, and disclose Scope 2 and 3 GHG emissions and related risks or the issuer's reasons for not disclosing this information (Scope 2 & 3 - comply or explain)

### Disclose the reporting standard used to calculate GHG emissions

# Proposed requirements

Key element	Proposed requirements
Governance (mandatory)	Describe the board's oversight of climate-related risks and opportunities, and management's role in assessing and managing climate-related risks and opportunities
Strategy (if material)	Describe the climate-related risks and opportunities the issuer has identified over the short, medium and long-term and the impact on its business, strategy and financial planning
Risk management (mandatory)	Describe the issuer's processes for identifying, assessing and managing climate-related risks and how these processes are integrated into its overall risk management
Metrics and targets (if material)	Disclose the metrics and targets used by the issuer to assess and manage climate-related risks and opportunities
GHG emissions (comply or explain) or (mandatory Scope 1 and Scope 2 & 3 comply or explain)	<p>Disclose Scope 1, 2 and 3 GHG emissions and related risks</p> <p>Alternative 1: Disclose Scope 1, 2 and 3 GHG emissions and related risks or the issuer's reasons for not disclosing this information (Scope 1, 2 &amp; 3 - comply or explain)</p> <p>Alternative 2: Disclose Scope 1 GHG emissions and related risks (a) when material or (b) in all cases, and disclose Scope 2 and 3 GHG emissions and related risks or the issuer's reasons for not disclosing this information (Scope 2 &amp; 3 - comply or explain)</p>

# Proposed requirements

## Location of disclosure

- Climate-related governance disclosure
  - In connection with a shareholder's meeting to elect directors, include in management information circular
  - Otherwise, in annual MD&A
- Climate-related strategy, risk management, and metrics and target disclosure
  - Include in Annual Information Form
  - Otherwise, in annual MD&A

# Modifications to the TCFD recommendations

## Scenario analysis

- TCFD requires a description of the company's resilience to different climate-related scenarios
- Proposed rule does not require scenario analysis

## GHG emissions

- TCFD requires disclosure of Scope 1, Scope 2 and, if appropriate, Scope 3 GHG emissions
- Proposed rule has two alternatives for disclosure of GHG emissions
  - Alternative 1: Scope 1, 2 and 3 – comply or explain
  - Alternative 2: Scope 1 - mandatory and Scope 2 and 3 – comply or explain
- TCFD requires uses of the GHG Protocol to calculate GHG emissions. Proposed rule requires GHG Protocol or comparable reporting standard

# Areas of consultation

The CSA is seeking general feedback and inviting comments related to the following:

- Experience with TCFD disclosures
- Disclosure of GHG emissions and scenario analysis
- Usefulness and benefits of disclosure
- Costs and challenges of the disclosures
- Guidance on the disclosure requirements
- Prospectus disclosure
- Phase-in implementation
- Future ESG considerations

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# Questions?

[energy@asc.ca](mailto:energy@asc.ca)



Thank You

