

February 2, 2023

**Re. SFAC recommendations to the Government of Canada on advancing climate-related disclosures in Canada**

Dear Deputy Prime Minister Freeland and Minister Guilbeault,

Canada has a narrow window to achieve our climate targets. Effective climate-related financial disclosures (herein, “disclosures”) are a critical tool in pursuit of those goals.

In this letter, SFAC offers its assessment of what the Government of Canada should prioritize with respect to disclosures. SFAC’s position is that Canada should aim to achieve near-complete coverage of the Canadian economy with disclosures aligned to international standards. Canadian companies and financial institutions are at risk of being left behind amidst a rapidly changing global landscape for disclosures. This is an urgent and critical issue that requires the Government of Canada’s attention.

**Current and planned mandatory disclosure requirements are a necessary step and should be implemented without undue delay**

The coverage of disclosure to be gained from current and planned requirements - specifically the Office of the Superintendent of Financial Institutions (OSFI) B-15: *Climate Risk Management* and Canadian Securities Administrators (CSA) *National Instrument 51-107 Disclosure of Climate-related Matters* - would be a significant step towards achieving consistent and decision-useful information for market participants. We estimate that a majority of Canada’s emissions would be covered by some form of disclosure requirement once the proposed regulatory instruments are implemented.<sup>1</sup>

SFAC expects each proposed instruments’ final form to reflect the feedback from consultations, including those from our members. That said, we encourage the Government of Canada to take action should either instrument be unduly delayed.

**Canadian disclosure requirements must be substantially aligned with the International Sustainability Standards Board (ISSB) requirements and interoperable with other standards relevant to Canadian companies**

Canadian disclosure requirements should substantially align with the ISSB requirements.<sup>2</sup> There may be some tailoring to the Canadian context, for example related to inclusion of specific disclosures on Reconciliation and Indigenous Peoples. SFAC understands that the Canadian

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<sup>1</sup> We recognise that emissions are a coarse proxy for transition risk and are not intended as a proxy for physical risk. This is a data limitation that exists and related recommendations are provided in this letter.

<sup>2</sup> By requirements we mean the International Financial Reporting Standards (IFRS) S2 Climate-related Disclosure draft. SFAC recognizes that these are not yet final.

Sustainability Standards Board (CSSB) will lead in tailoring the ISSB requirements for the Canadian context.

Canadian standards should not deviate from key disclosure requirements expected by the ISSB. For example, under the proposed CSA National Instrument, Canadian public companies will not be required to disclose their GHG emissions and can instead 'comply or explain'. This stands in contrast to the ISSB, which has confirmed it will require GHG emissions to be calculated and disclosed, including material scope 3 emissions. In SFAC's view, this deficiency must be rectified in the CSA National Instrument.

Substantially aligning Canadian disclosure requirements with the ISSB will support Canadian competitiveness in global capital markets. Lack of alignment could lead to competitive disadvantages for Canadian businesses, reduce confidence in Canada's management of climate risk, and be burdensome and costly for some Canadian companies.

SFAC recommends that final Canadian disclosure requirements be interoperable with key regional and national disclosure standards. In particular, given the number of dual-listed companies regulated in Canada and the United States, the Government of Canada should closely monitor development of the U.S. Securities Exchange Commission (SEC) disclosure rules and, where there are similar requirements, ensure that Canadian disclosure requirements are interoperable with the final SEC requirements.

**The Government of Canada should advocate for the enhancement of, or addition to, existing safe harbour protections**

Safe harbour provisions exist under Canadian securities law to protect companies from legal liability for some misrepresentations in forward-looking information. The safe harbour concept is important in the area of climate disclosure; companies may be hesitant to make disclosures in a field with evolving data and methodologies which could result in significant year-over-year changes in an issuer's disclosure.

Climate specific safe harbours would be beneficial in encouraging climate disclosure in cases where the use of assumptions and approximations is necessary due to imperfect data and evolving methodologies.

SFAC recommends the Government of Canada advocate for the enhancement of, or addition to, existing safe harbour protections in national securities law instruments and in provincial/territorial securities legislation. These safe harbours should specifically address backward and forward-looking climate disclosures and require issuers to state the material factors and assumptions used to develop such disclosures. Providing safe harbours will encourage reporting of more comprehensive, decision-useful disclosures.

In addition, the Government of Canada should ensure that federally-incorporated companies in Canada receive the same protections from liability, and should encourage provincial/territorial regulators to offer the same protections for provincially incorporated and public entities. These

protections should be as aligned as possible to the protections offered in other jurisdictions, such as the United States, United Kingdom and European Union. Over time, as disclosures improve, the Government of Canada should revisit the levels of safe harbour protections.

### **Canada should aim to achieve near complete coverage of our economy with disclosures**

SFAC advocates for near complete coverage of disclosures across the Canadian economy. We specify 'near complete' coverage to exclude entities with the least-consequential climate risks and opportunities.

Implementation of disclosure requirements should be phased-in and proportional. By phased-in, we mean the initial focus should be on the sectors of the economy with the most material climate risks and opportunities. By proportional, we mean the size and structure of businesses should be considered, recognizing that in some cases there are capacity or data challenges.

Based on existing and planned disclosure requirements, the main gap will be for privately-held companies. Excluding private companies from disclosure requirements would limit Canada's ability to transition to a low carbon economy by hiding pockets of climate risk, and creating an uneven playing field by imposing different regulatory treatment on federally-regulated financial institutions and publicly-held companies compared to privately-held entities.

The Government of Canada has a role to play in identifying the gaps in disclosure coverage and ensuring gaps are closed. This includes leveraging the tools at its disposal, such as the Canada Business Corporations Act (CBCA). Similarly, should the expected OSFI or CSA disclosure requirements be delayed, fail to be adopted, or fall below the ISSB standard, tools such as the CBCA could be used to address gaps in coverage. Since the CBCA does not apply to every Canadian economic entity, other tools, such as those held by the Canadian Revenue Agency or Statistics Canada, could also be considered to support this goal. The Government of Canada should also clearly articulate its position on how the principles of phased-in, proportional, and 'near-complete' will be applied.

When considering such action, the Government of Canada should consult with provincial/territorial governments as well as provincial/territorial financial regulators to promote similar provisions in provincial/territorial corporate statutes, ensuring disclosures from all entities such as municipalities, provincial/territorial crown corporations and non-federally registered companies are included in the phase-in process.

### **Data quality and availability is varied, which supports a proportional and phased-in approach to disclosure requirements**

While companies face different disclosure challenges depending on their size, location and sector, a common barrier is the availability and quality of climate-related data.

For many entities in Canada, especially larger ones, measuring scope 1 and 2 emissions is relatively straightforward. However, entities in some sectors have more complex scope 1 and 2 emissions and/or complex material scope 3 emissions. Beyond emissions, standards such as the ISSB require companies to disclose net-zero targets and the results of climate scenario analysis, for which many businesses would face challenges accessing reliable and relevant data. Generally speaking, small- and medium-sized enterprises (SMEs) have less capacity to collect, interpret and report data required for disclosure.

The mix of data challenges supports a proportional and phased-in approach to disclosure requirements, which recognises the needs and challenges of SMEs and specific sectors, for example on issues such as scope 3 quantification and climate scenario analysis.

The Government of Canada should also focus efforts on improving the availability, reliability and comparability of climate data. From SFAC's work to-date, two data needs stand out: first, it is achievable and necessary for current, more granular physical risk data to be made freely available to all businesses in Canada;<sup>3</sup> second, scope 1 and 2 emissions quantification would be easier and more accurate if companies had better access to the emissions data associated with their energy and fuel consumption.

### **Canada should measure and monitor the coverage of existing and planned disclosure requirements**

To achieve near complete coverage, it is important to measure how much of the economy would be covered by existing and planned requirements. However, there are data gaps and methodological limitations in measuring the coverage accurately. SFAC recommends the Government of Canada study this issue further in order to measure the cumulative progress of various disclosure requirements and the need for any additional action to close coverage gaps.

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<sup>3</sup> This would include exposure data for the most common physical risks, downscaled to the postal-code level of granularity, across all the standard warming scenarios (SSP1-1.9, SSP1-2.6, SSP2-4.5, SSP3-7.0 and SSP5-8.5), drawing on the most recent dataset from the Coupled Model Intercomparison Project (which at the time of writing is CMIP6).

## **Conclusion**

SFAC has welcomed the opportunity to provide perspectives and recommendations on what direction Canada should take on disclosures. It is our view that planned and existing requirements are an important step, and must be accompanied with further action to achieve near-complete coverage of our economy with disclosures substantially aligned to the ISSB.

Near complete coverage of disclosures across the Canadian economy is necessary and achievable. Climate-related disclosures should be viewed the same way as Canadian businesses being required to disclose nutritional information on food and beverage products, or to disclose safety information on home electronics. Those requirements, which at one time did not exist are now seen as a standard business practice. Businesses, consumers, investors, and governments need to understand the emissions and climate risk associated with their economic activity as a precursor to effective climate action.

Best,

**Kathy Bardswick**

**Chair, Sustainable Finance Action Council**