CCGG Canadian Coalition for Good Governance
THE VOICE OF THE INVESTOR

July 26, 2022

Emmanuel Faber, Chair
Sue Lloyd, Vice Chair
International Sustainability Standards Board (ISSB) IFRS Foundation
Columbus Building
7 Westferry Circus
Canary Wharf, London E14 4HD, UK

Dear Chair Faber and Vice Chair Lloyd,

Re: CCGG Response to IFRS Exposure Draft S2- Climate Related Disclosures

The Canadian Coalition for Good Governance (CCGG) welcomes the opportunity to provide the IFRS International Sustainability Standards Board (ISSB) with our comments in respect of the ISSB's consultation on the Exposure Draft IFRS S2 Climate-related Disclosures (the Exposure Draft).

CCGG's members are Canadian institutional investors that together manage approximately $6 trillion in assets on behalf of pension funds, mutual fund unit holders, and other institutional and individual investors. CCGG promotes good governance practices, including the governance of environmental and social matters, at Canadian public companies and assists institutional investors in meeting their stewardship responsibilities. CCGG also works toward the improvement of the regulatory environment to best align the interests of boards and management with those of their investors and to increase the efficiency and effectiveness of the Canadian capital markets. A list of our Members is attached to this submission.

GENERAL COMMENTS

CCGG strongly supports the formation of the ISSB and its efforts to establish international sustainability-related disclosure standards including through adopting a climate first approach to the development of topic specific standards[1].

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.

[1] See CCGG's December 11, 2020 Submission to the IFRS Foundation Trustees, supporting the establishment of an International Sustainability Standards Board and recommending alignment with existing initiatives, notably TCFD and SASB.

Some ESG issues, most notably climate change, are systemic and have the potential to impact all businesses in varying degrees.

Investors need comparability across issuers, which requires all issuers to disclose comparable information in a consistent place. Investors need this information to make informed investment decisions. As climate-related risks accrue across industries, sector-based materiality disclosures become increasingly important. The Exposure Draft represents an important evolution in achieving such climate-related disclosures and facilitating informational transparency. CCGG commends the ISSB's diligence and urgency with respect to moving this work forward.

In addition, CCGG fully supports aligning climate-related disclosures with the recommendations of the Taskforce on Climate-related Financial Disclosures (TCFD)[2]. The ISSB's approach corresponds to CCGG's long-standing view that mandatory disclosure of material ESG information should also be aligned with the TCFD framework. CCGG has been a public supporter of the TCFD since 2020. CCGG is of the view that TCFD along with the sector-specific standards developed by the Sustainability Accounting Standards Board (SASB) work well together as a foundation for climate-related disclosures. As such, we support the integration of the SASB derived disclosure topics into the Exposure Draft.

As CCGG's mandate is focused on improving corporate governance in public companies, our submission provides detailed comments in responses to the questions related to the proposed governance disclosures and higher-level commentary in response to the ISSB's other questions, where relevant to our mandate. This submission should also be read in conjunction with CCGG's response to the public consultation for the Exposure Draft S1 General Requirements for Disclosure of Sustainability-related Financial Information (the Exposure Draft S1 for General Requirements).

[2] See CCGG's, The Directors' E&S Guidebook, 2018 which recognized both TCFD and the Sustainability Accounting Standards Board (SASB) as good models for E&S disclosures; In June 2020, CCGG became a public supporter of TCFD; On November 25, 2020, eight of Canada's largest public pension plans released a joint statement requesting that companies disclose material, industry-relevant environmental, social and governance performance factors using the SASB standards and the TCFD framework to drive standardized reporting. Also see CCGG's: September 7, 2020 Submission to the Ontario Capital Markets Modernization Taskforce advocating for ESG disclosures built on SASB and TCFD; CCGG's December 11, 2020 Submission to the IFRS Foundation Trustees, supporting the establishment of an International Sustainability Standards Board and recommending alignment with existing initiatives, notably TCFD and SASB; See also CCGG's June 9, 2021 Submission to the US SEC in response to its request for public comment on climate change-related disclosure and CCGG's January 31, 2022 Submission to the Canadian Securities Administrators re: CSA Notice and Request for Comment Proposed National Instrument 51-107 Disclosures of Climate-related Matters; and CCGG's June 16, 2022 Submission to the US SEC re: The Enhancement and Standardization of Climate-related Disclosures for Investors.

RESPONSES TO SPECIFIC CONSULTATION QUESTIONS

QUESTION 1 – OBJECTIVE OF THE EXPOSURE DRAFT

(a) Do you agree with the objective that has been established for the Exposure Draft? Why or why not?

The text of the objective in paragraph 1 states:

> *The objective of [draft] IFRS S2 Climate-related Disclosures is to require an entity to disclose information about its exposure to **significant** climate-related risks and opportunities, enabling users of an entity's general purpose financial reporting:*
>
> *(a) to assess the effects of **significant** climate-related risks and opportunities on the entity's enterprise value;*
>
> *(b) to understand how the entity's use of resources, and corresponding inputs, activities, outputs and outcomes support the entity's response to and strategy for managing its **significant** climate-related risks and opportunities; and*
>
> *(c) to evaluate the entity's ability to adapt its planning, business model and operations to **significant** climate-related risks and opportunities.*

In principle, CCGG agrees with the objective that has been established in the Exposure Draft. We support the following elements of the objective:

- investors as primary users of general purpose financial information are identified as the intended audience for the climate-related disclosures;
- the purpose of the information is to enable investors to assess enterprise value through an understanding of how a reporting entity addresses the effects of climate-related risks and opportunities, related allocations of resources, strategy and plans for adaptation;
- subject to our comments in part (b) below, the disclosure appears to be focused on climate-related information that is *significant* (i.e. not every climate-related risk or opportunity).

In addition, we support the scope of the Exposure Draft as set out in paragraph 2 which encompasses climate-related risks, both physical risks and transition risks, and climate-related opportunities.

(b) Does the objective focus on the information that would enable users of general purpose financial reporting to assess the effects of climate-related risks and opportunities on enterprise value?

In CCGG's view, there are two areas where the focus of the objective should be clarified.

1. The use of "significant." Consistent with CCGG's related comments in its response to the Exposure Draft for General Requirements, we have questions and concerns with respect to the utility of the use of the word "significant" in the context of the identification and disclosure of climate-related risks and opportunities.

   Investors require climate-related disclosures that are material.

   The Exposure Draft does not define *significant* and does not provide guidance or context as to the relationship and/or differences between the *significance* and *materiality* of the sustainability-related risks or opportunities a reporting entity is expected to identify.

   Materiality is defined by the ISSB. The definition of materiality to be applied in the Exposure Draft is found in paragraph 56 of the Exposure Draft for General Requirements and states:

   > *Sustainability-related financial information is material if omitting, misstating or obscuring that information could reasonably be expected to influence decisions that the primary users of general purpose financial reporting make on the basis of that reporting, which provides information about a specific reporting entity.*

   This definition is clear and generally aligned with the Canadian capital markets definition[3] and also clarifies that materiality is linked to information that could reasonably be expected to influence investor decisions.

   Paragraph B5 of Appendix B to the Exposure Draft under the heading Materiality states:

   > *The objective of this Standard is to require entities to provide material information about their exposure to climate-related risks and opportunities that is useful to users of general purpose financial reporting in assessing the entity's enterprise value and making decisions about whether to provide economic resources to the entity.*

   Given the above it would appear that the intention of the Exposure Draft is to anchor disclosures in materiality rather than "significance." If this is the case, the ISSB may simply wish to delete the concept of *significant* in favour of consolidation around the concept of disclosing information that is *material*. If this is not the case, greater clarity with respect to the definition of "significant" and the intended distinctions and relationship between the concepts of "significance" and "materiality" is needed.

   In addition, as noted in our response to the Exposure Draft for General Requirements, with respect to the purpose of the information, we would observe that investors do not use

[3] See for example, Ontario Securities Commission Form 51-102F1, Management's Discussion and Analysis: information is likely material where a reasonable investor's decision whether or not to buy, sell or hold securities of the issuer would likely be influenced or changed if the information was omitted or misstated.

climate-related disclosures only for the purpose of deciding whether to provide resources to an entity but also for monitoring and other critical stewardship activities, such as voting and engagements.

2. The drafting of the objective in paragraph 1 also does not expressly identify governance related information as being a component of the information needed by investors to assess enterprise value, even though governance disclosure is a requirement as noted in paragraphs 4-6 of the Exposure Draft. We would recommend that the list of categories of information identified in paragraph 1 (a)-(c) be updated to incorporate governance, either through a new paragraph (d) or through integration of a reference to "governance oversight" into paragraphs (a) or (b).

d) Do the disclosure requirements set out in the Exposure Draft meet the objectives described in paragraph 1? Why or why not? If not, what do you propose instead and why?

CCGG strongly supports alignment of the ISSB's climate-related disclosures with the four pillars of the TCFD recommendations. CCGG has been a supporter of TCFD for climate-related financial disclosures since 2020 and has been of the view that it is a good model for organizing disclosure of other sustainability-related financial information since 2018[4].

Consistent with our comments in response to the Exposure Draft for General Requirements, CCGG encourages the ISSB to clarify, following the approach taken by the TCFD, that sustainability-related governance and risk management disclosures, unlike those with respect to strategy and metrics and targets, are not subject to a materiality threshold.

As currently structured, there is a risk that reporting entities make determinations that climate-related disclosure topics are not material (even after reference to the SASB industry disclosure topics and metrics, and the other sources referred to in the Exposure Draft). If this is the case then no disclosures would be required as to how these determinations were made, how risk procedures address such determinations and how the board exercises its governance oversight responsibilities over them. Investors require this information to be able to assess how a company is approaching climate-related issues.

Investors require transparency with respect to how a board is assessing and determining whether and which climate-related risks are material to a reporting entity and what practices are in place to oversee the risks that are identified. Consistent with the approach taken by the TCFD Framework, governance and risk management disclosure requirements are not subject to materiality in either of the draft regulatory disclosure regimes published by the Canadian Securities Administrators or the US Securities and Exchange Commission's in their recent consultation proposals.

[4] CCGG's The Directors E&S Guidebook, May 2018, see Figure 1 at page 26.

QUESTION 2— GOVERNANCE

Do you agree with the proposed disclosure requirements for governance processes, controls and procedures used to monitor and manage climate-related risks and opportunities? Why or why not?

As a non-diversifiable systemic risk, climate change is a risk that impacts all companies to some degree and as such it is important for boards to ensure that all material risks are identified and managed, opportunities are identified and integrated, and that there is ongoing organizational understanding and ownership of the business impacts of such risks and opportunities[5].

CCGG does not believe that there is a prescriptive, one size fits all approach to the board's oversight of climate-related risks and opportunities, and individual boards are best positioned to determine how oversight is exercised. As such, disclosure becomes an especially valuable tool for companies to inform shareholders as to how they are discharging this core obligation.

CCGG is therefore highly supportive of the ISSB's proposed climate-related governance disclosure requirements and finds them to be consistent with CCGG's own recommendations regarding board oversight of material ESG matters (including those related to climate risks and opportunities) as set out in its E&S Directors Guidebook, with some additional insights noted, as follows:

- **Board Structure [paragraphs 5(a) and 5(b)]:** CCGG agrees that a company should identify the board members or board committee(s) responsible for the oversight of climate-related risks but the ISSB should not be prescriptive as to how boards discharge this oversight obligation. Committee structures will be relevant to the company's business and reflect the company's risk profile and will vary based on the company's size, sophistication and industry. In some cases oversight of climate-related risks and opportunities may be distributed across several committees or board members. Boards need to have the flexibility to organize and exercise their oversight responsibilities in the most appropriate manner for their company and industry, provided only that they are transparent with their investors as to how this has been done. CCGG views committee charters as an effective tool for setting out climate-related accountabilities and risks but the documentation proposed by the ISSB in the Exposure Draft including terms of reference, board mandates and other related policies would also be appropriate depending on the needs and

[5] CCGG's The Directors E&S Guidebook, May 2018 at page 5. Although the guidance and recommendations in the E&S Directors Guidebook are drafted to apply generally to the governance of environmental and social issues, they are relevant and applicable to how directors can begin to approach and integrate into their governance practices the specific issues posed to their business by climate change impacts, risks and opportunities.

processes of the company. Wherever these responsibilities are captured, these documents should be regularly reviewed as risks evolve and be readily accessible to investors[6];

- **Board Composition and Competency [paragraph 5(c)]:** CCGG agrees a company should disclose the appropriate skills and competencies it has to oversee climate-related risks and opportunities. This would include whether any board member has climate-related (or other relevant environmental, social, governance) expertise and provide a description of the nature of the expertise (including whether it is experience specific to a relevant climate-related issue; or more general in nature e.g. sitting on a sustainability committee which has a climate-related mandate). We would further advocate for disclosure with respect to how the expertise is relevant to the company's identified material risks and opportunities given its business, industry, financial responsibilities and risk profile. A key tool for making this disclosure is for the board to maintain a skills and competency matrix which not only provides shareholders with insight as at how the board looks at its current composition but also reveals gaps and potential areas for enhancement[7];

- **Board Education [paragraph 5(c)]:** CCGG is of the view that notwithstanding whether or not a board determines that specific climate-related (or ESG) expertise is a required skill set in an individual board member, board education with respect to business relevant climate issues is important in order to build awareness and appropriate knowledge within the board as a whole. CCGG believes that the board should consider the use of independent advisors or external presentations to provide different perspectives and viewpoints. Companies should disclose what climate-related education has been received by the board and its committees in its annual disclosure[8]. CCGG is of the view that climate-related board education initiatives should be included in the disclosure required by paragraph 5(c) of the Exposure Draft.

- **Board Risk Oversight [paragraph 5(d)]:** Oversight of material risk factors including those related to climate-related impacts is a core function of the board[9]. Investors expect climate-related risks to be fully integrated into a company's approach to identifying, assessing and managing risks, for example, through the use of an enterprise risk management (ERM) system or equivalent. CCGG recommends that the board should disclose to investors its approach to climate-related risk oversight. This would include the

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[6] CCGG's The Directors E&S Guidebook, May 2018 at pages 19-20, see recommended practices 16-18 focused on Board Structure.
[7] CCGG's The Directors E&S Guidebook, May 2018 at page 18, see recommended practices 13-15 focused on Board Composition.
[8] CCGG's The Directors E&S Guidebook, May 2018 at pages 20-21, see recommended practices 21 focused on Board Education.
[9] CCGG's The Directors E&S Guidebook, May 2018 at page14; also see CCGG's Building High Performance Boards, Guideline 11: "directors are responsible for risk oversight, including overseeing management's systems and processes for identifying, evaluating, prioritizing, mitigating, and monitoring risks. Directors are also responsible for approving the corporations risk parameters including risk tolerance and appetite. Such parameters are designed to prevent the destruction of asset and shareholder value and to reduce the likelihood of underperformance over the long term."

process the board uses to review management's risk assumptions, materiality assessment and risk prioritization[10]. In our view, this disclosure should also extend to include the frequency by which the board or board committee discusses climate-related risks.

- **Board Oversight of Strategy [paragraph 5(e)]:** With respect to corporate strategy, material climate-related factors should be incorporated into the corporation's strategy and overseen by the board where they represent significant risk or value to the company (either immediately or over time). The board should disclose to investors how climate-related considerations factor into the company's long-term vision and strategic objectives and should disclose the frequency with which the board reviews such considerations as part of its evolving strategic plan. For example, CCGG recommends management and board focus sessions be held annually (at a minimum)[11].

- **Board Oversight of Targets [paragraph 5(f)]:** Where a company has climate-related targets or goals, investors would expect disclosure as to how the board or a delegated committee exercises independent oversight with respect to how the targets/goals are set, and how progress against such goals is measured. CCGG views this as a component of the board's oversight of corporate strategy.

- **Board Oversight of Sustainability-related Performance and Executive Remuneration [paragraph 5(f)]:** Executive compensation is a key mechanism for incentivizing behaviours and performance to achieve the company's short-, medium- and long-term strategic priorities. The board has a responsibility to monitor this performance and do so using appropriate metrics and milestones. To the extent that material climate-related priorities are incorporated into the strategic plan, relevant performance evaluation metrics should be included in the management compensation structure and integrated into executive compensation disclosure.

  Disclosure should provide sufficient information for investors to understand how:
  - climate-related metrics and performance targets support shareholder value and long-term strategy;
  - how the board evaluates performance and allocates compensation, particularly in situations where climate-related objectives form part of discretionary compensation awards or rely on qualitative measures as opposed to quantifiable metrics or milestones for example where a company has a transition plan, disclosure should link executive compensation to performance in achieving the objectives of the plan; and
  - in circumstances where climate-related priorities are excluded from performance metrics, the board should explain why they are not captured, for example this

[10] CCGG's The Directors E&S Guidebook, May 2018 at pages 14-16, see recommended practices 9 focused on Risk Management.
[11] CCGG's The Directors E&S Guidebook, May 2018 at pages 16-17, see recommended practices 10-12 focused on Risk Management.

disclosure may be particularly insightful where there is a transition plan but no link between performance under such plan and executive compensation as provided for in the prior bullet [12].

We would recommend that disclosure requirements with respect to how governance oversight is exercised in the context of climate-related performance as it relates to executive remuneration be separated out of sub-paragraph 5(f) and be incorporated into a dedicated sub-paragraph.

- **Board Oversight of Management's Role in Sustainability-related Risks and Opportunities [paragraph 5(g)]:** As part of a robust risk management system there should be clear accountability as between the board, the CEO and senior officers with respect to the assignment and ownership of climate-related risks within the company's management structure[13]. CCGG supports full disclosure with respect to how and to whom within the company's organization accountability for climate-related risks is assigned.

CCGG agrees with the proposition in paragraph 6 of the Exposure Draft that reporting entities should avoid unnecessary duplication with disclosures already made under the equivalent governance section in the Exposure Draft for General Requirements especially where climate-related risks and opportunities are addressed by boards on an integrated basis with sustainability-related risks and opportunities. Greater guidance for reporting entities will likely be required on this point as the standards evolve.

QUESTION 3 – IDENTIFICATION OF CLIMATE-RELATED RISKS AND OPPORTUNITIES

a) Are the proposed requirements to identify and to disclose a description of significant climate-related risks and opportunities sufficiently clear? Why or why not?

Please refer to comments in response to 1(b) with respect to the use of "significant" as opposed to "material" when describing climate-related risks and opportunities.

CCGG agrees that disclosures of time horizons are an important component of climate-related risk disclosures. CCGG does not support prescribed, specific time periods with respect to what constitutes a particular company's short-, medium- or long-term trajectory as this will be industry and business specific. CCGG does agree with the proposal in paragraph 9(b) of the Exposure Draft that reporting entities should disclose how they define in years short-, medium- and long-term and how these time frames are linked to strategic planning horizons and capital allocation plans.

[12] CCGG's The Directors E&S Guidebook, May 2018 at pages 22-23, see recommended practices 25.
[13] CCGG's The Directors E&S Guidebook, May 2018 at pages 14-16, see recommended practices 6-9.

(b) Do you agree with the proposed requirement to consider the applicability of disclosure topics (defined in the industry requirements) in the identification and description of climate-related risks and opportunities? Why or why not? Do you believe that this will lead to improved relevance and comparability of disclosures? Why or why not? Are there any additional requirements that may improve the relevance and comparability of such disclosures? If so, what would you suggest and why?

The disclosure topics in Appendix B have been derived and adapted from the SASB Standards. CCGG views the SASB Standards as a good model for identifying material sustainability-related disclosures, including with respect to climate-related disclosures[14].

Consistent with our comments in response to the Exposure Draft for General Requirements, however, we have concerns with the lack of required disclosure with respect to *how* materiality assessments are conducted. Paragraph B6 of the Exposure Draft requires reporting entities to exercise materiality judgements to determine whether or not a disclosure topic is relevant. Paragraph B6 states:

> As described in paragraph B3, the disclosures set out in Appendix B and its related volumes have been identified as those that are likely to be useful to users of general purpose financial reporting in making assessments of an entity's enterprise value. *However, the responsibility for making materiality judgements and determinations rests with the reporting entity for all requirements in IFRS Sustainability Disclosure Standards, including this Standard. Therefore, an entity shall disclose information related to a specific requirement when it concludes that the information is material to the users of the information in assessing the enterprise value of the entity*. [Emphasis added]

CCGG agrees that this is appropriate, however, there is no requirement for disclosure with respect to how such materiality judgements and determination are made. CCGG does not agree with this exclusion. As noted in our response to the Exposure Draft for General Requirements, such disclosure is expressly excluded from the sustainability-related disclosures regime in the Exposure Draft for General Requirements. For further context on this see paragraph 66 of the Basis for Conclusions for the General Requirements and responses 1(a) and (b) and 8(a) in CCGG's response to the Exposure Draft for General Requirements.

Understanding risk management process is important for investors in determining how a reporting entity is overseeing climate-related issues including with respect to how it is assessing materiality. Investors need to understand *how* a company is identifying, overseeing, measuring and managing its significant sustainability-related risks and opportunities in order to properly assess the company's enterprise value. In other words, descriptions as to how a reporting entity approaches identifying material climate-related risks and opportunities is

[14] CCGG's The Directors E&S Guidebook, May 2018, see Figure 1 at page 26.

relevant to investors. The process a company uses to determine what information is material and therefore required to be disclosed is also a critical piece of information for investors. This materiality assessment and discussion of the methodology used to perform such an assessment should be a part of the requirements for climate-related disclosures as they are relevant to identification and determination of material disclosure topics.

In our view, requiring disclosure of materiality assessments will improve the relevancy and comparability of the identification of climate-related risks.

QUESTION 4 — CONCENTRATIONS OF CLIMATE-RELATED RISKS AND OPPORTUNITIES IN AN ENTITY'S VALUE CHAIN

a) Do you agree with the proposed disclosure requirements about the effects of significant climate-related risks and opportunities on an entity's business model and value chain? Why or why not?

The definition for "value chain" is consistent as between the Exposure Draft for General Requirements and the Exposure Draft.

Please refer to CCGG's response to Question 5(b) from the Exposure Draft for General Requirements for comments on the definition.

With respect to the Exposure Draft we note that paragraph 12(b) appears to repeat some of the elements of the value chain definition of factors to be considered with respect to identifying the effects of climate-related risks and opportunities, such as with respect to distribution channels and geography but to also require additional factors to be considered such as asset type, facilities, etc. To avoid duplication, the ISSB may wish to consider refining the definition of "value chain" applicable in the Exposure Draft to be more tailored to the specific climate-related disclosures intended to be captured.

(b) Do you agree that the disclosure required about an entity's concentration of climate-related risks and opportunities should be qualitative rather than quantitative? Why or why not? If not, what do you recommend and why?

Please see response to question 4(a) above.

QUESTION 5 –TRANSITION PLANS AND CARBON OFFSETS

(a) Do you agree with the proposed disclosure requirements for transition plans? Why or why not?

CCGG agrees that the Exposure Draft should include an expectation of disclosure with respect to transition plans under the pillar of "strategy" reporting, or an explanation as to why there is none.

The accelerating shift toward aligning strategy with the transition to a low carbon economy and achieving net zero emissions by 2050 is shaping the assumptions used in scenario analysis[15]. 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[16]. This underlines the importance for companies of undertaking analysis, in particular analysis that includes accelerated timelines for transition.

It further reinforces the need for companies to develop net-zero transition plans. Disclosure of these transition plans, including how a company intends to deliver on its net zero (by 2050) and interim (by 2030, 2035, etc.) commitments and any targets therein is decision-useful to investors in evaluating the credibility of a company's plan and in measuring progress towards stated targets over time[17].

[15] E.g. Canada passed the *Canadian Net-Zero Emissions Accountability Act* on June 29, 2021 which codifies Canada's commitment to set national targets to reduce GHG emissions with the goal of attaining net-zero emissions by 2050 and to set targets in five year intervals with the first targets to be achieved in 2030: Government of Canada, Environment and Climate Change Canada, New Release, Government of Canada legislates climate accountability with first net-zero emissions law, June 30, 2021. Also see in the UK context: HM Treasury, Guidance Fact Sheet: Net Zero-aligned Financial Centre, November 2, 2021.

[16] E.g. for the financial sector, the TCFD recommendation on portfolio alignment has been updated to reference article two of the 2015 Paris Agreement, which commits parties to "holding the increase in the global average temperature to well below 2^{0}C above pre-industrial levels and pursuing efforts to limit the temperature increase to 1.5^{0}C above pre-industrial levels": Taskforce on Climate-related Financial Disclosures Guidance on Metrics, Targets, and Transition Plans, October 2021, at footnote 15 [hereinafter TCFD October 2021 Guidance]. Also see, IPCC's Summary for Policymakers of IPCC Special Report on Global Warming of 1.5^{0}C approved by governments approved by governments' October 8, 2018 which states: "global net human-caused emissions of carbon dioxide (CO_2) would need to fall by about 45 percent from 2010 levels by 2030, reaching 'net zero' around 2050", at C. 1.

[17] In May 2021, the Canadian government established the Sustainable Finance Action Council to support the implementation of sustainable finance practices in Canada's financial sector and across the broader economy. Its goal is to "help accelerate movement of private capital in support of the Government of Canada's climate goals, in particular: to support the achievement of Canada's enhanced 2030 target; to transition to a net-zero emissions economy by 2050; and, to ensure climate resilience and adaptation throughout Canada". Its mandate includes making recommendations related to climate-related disclosures (aligned with the TCFD); improved access to data and analytics; and common standards for sustainable and low carbon investments. Government of Canada, Department of Finance Canada, Sustainable Finance.

The disclosure of transition plans is included by reference in the Exposure Draft in a manner aligned with the TCFD's recommendation to describe the impact of significant climate-related risks and opportunities on the organization's business, strategy and financial planning.

(b) Are there any additional disclosures related to transition plans that are necessary (or some proposed that are not)? If so, please describe those disclosures and explain why they would (or would not) be necessary.

See response to Question 5(a) above.

(c) Do you think the proposed carbon offset disclosures will enable users of general purpose financial reporting to understand an entity's approach to reducing emissions, the role played by carbon offsets and the credibility of those carbon offsets? Why or why not? If not, what do you recommend and why?

CCGG will not be responding to this question.

(d) Do you think the proposed carbon offset requirements appropriately balance costs for preparers with disclosure of information that will enable users of general purpose financial reporting to understand an entity's approach to reducing emissions, the role played by carbon offsets and the soundness or credibility of those carbon offsets? Why or why not? If not, what do you propose instead and why?

CCGG will not be responding to this question.

QUESTION 6 – CURRENT AND ANTICIPATED EFFECTS

(a) Do you agree with the proposal that entities shall disclose quantitative information on the current and anticipated effects of climate-related risks and opportunities unless they are unable to do so, in which case qualitative information shall be provided (see paragraph 14)? Why or why not?

CCGG will not be responding to this question.

(b) Do you agree with the proposed disclosure requirements for the financial effects of climate-related risks and opportunities on an entity's financial performance, financial position and cash flows for the reporting period? If not, what would you suggest and why?

CCGG will not be responding to this question.

(c) Do you agree with the proposed disclosure requirements for the anticipated effects of climate-related risks and opportunities on an entity's financial position and financial performance over the short, medium and long term? If not, what would you suggest and why?

CCGG will not be responding to this question.

QUESTION 7 – CLIMATE RESILIENCE

a) Do you agree that the items listed in paragraph 15(a) reflect what users need to understand about the climate resilience of an entity's strategy? Why or why not? If not, what do you suggest instead and why?

Given uncertainty in path and timing of the transition to a low-carbon economy and the interactions between transition and physical climate risks, scenario analysis is a means for reporting entities to test the resilience of their strategy over the short-, medium- and long-term. Within the TCFD Framework the purpose of scenario analysis is to facilitate an understanding of the company's strategy in the context of strategic resilience, but the ISSB's proposed approach provides an alternate pathway to achieving the same goal of assessing resilience.

CCGG's existing position is that scenario analysis should not be mandatory at this time, given the absence of standardized and comparable scenarios, methodologies and data, but disclosure should be required on a comply or explain basis. The tools to conduct scenario analysis are evolving rapidly, and we expect the data and methodologies to improve over time as convergence around a consistent set of standards with respect to how to use scenarios emerges.

In CCGG's view, scenario analysis should be required on a comply or explain basis. If a reporting entity makes such disclosure, it should include sufficient transparency for investors to understand the rigour behind the assumptions made, the scenarios used and the commitments being made.

There is value to investors in knowing whether or not a company has undertaken scenario analysis or stress testing. Where a company has undertaken such analysis, disclosure with respect to the scenarios used, parameters tested and key assumptions made is useful to institutional investors as it provides them with significant insight into the rigour with which climate related risks and opportunities have been integrated into the company's oversight mechanisms, culture and operations. To be of more significant use for investors, reporting entities should further disclose how their strategy might change to address potential risks and opportunities revealed by the scenario analyses or stress tests.

In principle these objectives are met by the items detailing required disclosures for scenario analysis as listed in paragraph 15(a) and supplemented by the required disclosures as to how the analysis has been conducted, as set out in paragraph 15(a)(i).

The model proposed by the ISSB, however, is to require scenario analysis disclosures aligned with the required disclosures as set out in paragraphs 15(a) and (b)(i) of the Exposure Draft, but to also provide an alternative framework for disclosures as set out in paragraph 15(b)(ii) if scenario analysis is unable to be used. The alternative framework includes required disclosures as to how the entity assesses its climate resilience, including an explanation as to why the entity was not able to use climate-related scenario analysis to assess the climate resilience of its strategy as noted in paragraph 15(b)(ii)(7).

This approach does not require mandatory scenario analysis to take place but it does begin to establish a common set of disclosures for those conducting scenario analysis. For those who are not yet doing so, it establishes a common set of considerations for climate-related disclosures, both with the goal of providing sufficient information to enable an investor to assess an entity's strategic resilience. This represents a slightly more structured model than a typical open ended 'comply or explain' approach. Consistent with our existing position, we would recommend that the disclosure in paragraph 15(b)(ii)(7) with respect to why scenario analysis was unable to be used be a required disclosure in the Exposure Draft but the disclosures set out in 15(b)(ii)(1)-(6) be illustrative and non-mandatory at this time.

While we acknowledge that climate scenario analysis (and the inherent stress testing) is still in its early stages and is currently of limited comparability, consistency or decision usefulness for investors, we also recognize that data and methodologies are evolving rapidly and disclosures made under the Exposure Draft once implemented will be a big factor in driving that evolution. As this occurs the disclosure requirements with respect to scenario analysis should be reassessed, with a view to making such disclosures mandatory and consistent with leading best practices.

We further note that asset owners and managers are starting to conduct scenario analysis and stress testing in evaluations of their own portfolios and investment decisions. If a company does not disclose how it is approaching strategic resilience, then there is a real risk that investors will fill in the blanks through other sources.

(b) The Exposure Draft proposes that if an entity is unable to perform climate-related scenario analysis, that it can use alternative methods or techniques (for example, qualitative analysis, single-point forecasts, sensitivity analysis and stress tests) instead of scenario analysis to assess the climate resilience of its strategy. (i) Do you agree with this proposal? Why or why not? (ii) Do you agree with the proposal that an entity that is unable to use climate-related scenario analysis to assess the climate resilience of its strategy be required to disclose the reason why? Why or why not? (iii) Alternatively, should all entities be required to

undertake climate-related scenario analysis to assess climate resilience? If mandatory application were required, would this affect your response to Question 14(c) and if so, why?

See response to Question 7(a) above.

(c) Do you agree with the proposed disclosures about an entity's climate-related scenario analysis? Why or why not?

See response to Question 7(a) above.

(d) Do you agree with the proposed disclosure about alternative techniques (for example, qualitative analysis, single-point forecasts, sensitivity analysis and stress tests) used for the assessment of the climate resilience of an entity's strategy? Why or why not?

See response to Question 7(a) above.

(e) Do the proposed disclosure requirements appropriately balance the costs of applying the requirements with the benefits of information on an entity's strategic resilience to climate change? Why or why not? If not, what do you recommend and why?

CCGG will not be responding to this question.

QUESTION 8 – RISK MANAGEMENT

Do you agree with the proposed disclosure requirements for the risk management processes that an entity uses to identify, assess and manage climate-related risks and opportunities? Why or why not? If not, what changes do you recommend and why?

See response to Question 3(b).

QUESTION 9 — CROSS-INDUSTRY METRIC CATEGORIES AND GREENHOUSE GAS EMISSIONS

(a) The cross-industry requirements are intended to provide a common set of core, climate-related disclosures applicable across sectors and industries. Do you agree with the seven proposed cross-industry metric categories including their applicability across industries and business models and their usefulness in the assessment of enterprise value? Why or why not? If not, what do you suggest and why?

CCGG will not be responding to this question

(b) Are there any additional cross-industry metric categories related to climate-related risks and opportunities that would be useful to facilitate cross-industry comparisons and assessments of enterprise value (or some proposed that are not)? If so, please describe those disclosures and explain why they would or would not be useful to users of general purpose financial reporting.

CCGG will not be responding to this question.

(c) Do you agree that entities should be required to use the GHG Protocol to define and measure Scope 1, Scope 2 and Scope 3 emissions? Why or why not? Should other methodologies be allowed? Why or why not?

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, mandated standard. The GHG Protocol is the most widely used methodology and enjoys strong support across all stakeholders. Other methodologies such as the Partnership for Carbon Accounting Financials (PCAF) standard build on the GHG Protocol Scope 3 accounting rules in its methodology. PCAF applies to financial institutions reporting on financed emissions.

(d) Do you agree with the proposals that an entity be required to provide an aggregation of all seven greenhouse gases for Scope 1, Scope 2, and Scope 3— expressed in CO2 equivalent; or should the disclosures on Scope 1, Scope 2 and Scope 3 emissions be disaggregated by constituent greenhouse gas (for example, disclosing methane (CH4) separately from nitrous oxide (NO2))?

CCGG will not be responding to this question.

(e) Do you agree that entities should be required to separately disclose Scope 1 and Scope 2 emissions for: (i) the consolidated entity; and (ii) for any associates, joint ventures, unconsolidated subsidiaries and affiliates? Why or why not?

CCGG will not be responding to this question.

(f) Do you agree with the proposed inclusion of absolute gross Scope 3 emissions as a cross-industry metric category for disclosure by all entities, subject to materiality? If not, what would you suggest and why?

TCFD recently updated its 2021 Annex to indicate 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 is subject to materiality; however, the Task Force encourages all organizations to disclose such emissions[18].

It is agreed that climate change is a systemic risk to economies and communities. For investors to make better informed investment and engagement decisions, all companies should be required to disclose both their Scope 1 and Scope 2 GHG emissions annually.

CCGG recognizes that Scope 3 emissions currently present more of a challenge because emissions disclosures are more complex and methodologies are not yet mature. 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. Disclosure of Scope 3 GHG emissions can therefore be a critical aspect of understanding climate-related risks and opportunities as highlighted by the TCFD and ISSB. Issuers should be required to disclose Scope 3 GHG emissions, if the company deems them to be material or if they have made Scope 3 emissions reduction commitments, or they should disclose the company's reasons for not disclosing this information[19].

Further, the GHG Protocol Scope 3 Standard notes that "while a company has control over its direct emissions, it has influence over its indirect emissions". Following the adage "what gets measured gets managed," requiring material Scope 3 disclosures facilitates investor insight into the degree to which Scope 3 emissions are deemed to be material by a reporting entity, and how the entity is factoring such emissions into its climate strategy and operational resilience. Companies should determine materiality for climate-related metrics consistent with how they determine the materiality of other information included in their financial filings and provide similar disclosure with respect to the materiality assessment process.

QUESTION 10-TARGETS

(a) Do you agree with the proposed disclosure about climate-related targets? Why or why not?

See response to Question 5(a).

The ISSB should clarify the interaction between references to target related disclosures in paragraphs 13(a) and (b) related to strategy and decision making and those set out in paragraph 23 related to disclosure requirements under the pillar of metrics and targets.

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[18] TCFD October 2021 Guidance, Taskforce on Climate-related Financial Disclosures Guidance on Metrics, Targets, and Transition Plans, October 2021, at page 15.
[19] Science Based Targets, SBTi Criteria and Recommendations TWG-INF-002, V. 5.0 October 2021 which recommends that if a company's relevant scope 3 emissions are 40% or more of total Scope 1, 2 and 3 emissions, a Scope 3 target is required, at C4.

Paragraph 13(a) references targets in the context of strategy and decision-making, including transition plans. It provides that disclosure should include how an entity "plans to achieve any climate-related targets it has set". Paragraph 13(b) sets out what disclosures are required for such plans. Read together this implies that there is no obligation to set targets, but if targets are set then certain information is required. In contrast, paragraph 23 uses mandatory language, "an entity shall disclose its climate-related targets…" and goes on to provide a list of required disclosures. Clarification is required with respect to whether targets are mandatory or non-mandatory in nature and with respect to the relationship between targets in transition plans and the targets contemplated by paragraph 23 which are presumably outside such plans.

(b) Do you think the proposed definition of 'latest international agreement on climate change' is sufficiently clear? If not, what would you suggest and why?

The proposed definition of 'latest international agreement on climate change' is sufficiently clear.

QUESTION 11 – INDUSTRY-BASED REQUIREMENTS

(a)Do you agree with the approach taken to revising the SASB Standards to improve the international applicability, including that it will enable entities to apply the requirements regardless of jurisdiction without reducing the clarity of the guidance or substantively altering its meaning? If not, what alternative approach would you suggest and why?

CCGG will not be responding to this question.

(b) Do you agree with the proposed amendments that are intended to improve the international applicability of a subset of industry disclosure requirements? If not, why not?

CCGG will not be responding to this question.

(c) Do you agree that the proposed amendments will enable an entity that has used the relevant SASB Standards in prior periods to continue to provide information consistent with the equivalent disclosures in prior periods? If not, why not?

CCGG will not be responding to this question.

d) Do you agree with the proposed industry-based disclosure requirements for financed and facilitated emissions, or would the cross-industry requirement to disclose Scope 3 emissions (which includes Category 15: Investments) facilitate adequate disclosure? Why or why not?

CCGG will not be responding to this question.

(e) Do you agree with the industries classified as 'carbon-related' in the proposals for commercial banks and insurance entities? Why or why not? Are there other industries you would include in this classification? If so, why?

CCGG will not be responding to this question.

(f) Do you agree with the proposed requirement to disclose both absolute- and intensity-based financed emissions? Why or why not?

CCGG will not be responding to this question.

g) Do you agree with the proposals to require disclosure of the methodology used to calculate financed emissions? If not, what would you suggest and why?

CCGG will not be responding to this question.

(h) Do you agree that an entity be required to use the GHG Protocol Corporate Value Chain (Scope 3) Accounting and Reporting Standard to provide the proposed disclosures on financed emissions without the ISSB prescribing a more specific methodology (such as that of the Partnership for Carbon Accounting Financials (PCAF) Global GHG Accounting & Reporting Standard for the Financial Industry)? If you don't agree, what methodology would you suggest and why?

CCGG will not be responding to this question.

(i) In the proposal for entities in the asset management and custody activities industry, does the disclosure of financed emissions associated with total assets under management provide useful information for the assessment of the entity's indirect transition risk exposure? Why or why not?

CCGG will not be responding to this question.

(j) Do you agree with the proposed industry-based requirements? Why or why not? If not, what do you suggest and why?

See response to Question 3(b)

(k) Are there any additional industry-based requirements that address climate related risks and opportunities that are necessary to enable users of general purpose financial reporting to assess enterprise value (or are some proposed that are not)? If so, please describe those disclosures and explain why they are or are not necessary.

CCGG will not be responding to this question.

(l) In noting that the industry classifications are used to establish the applicability of the industry-based disclosure requirements, do you have any comments or suggestions on the industry descriptions that define the activities to which the requirements will apply? Why or why not? If not, what do you suggest and why?

CCGG will not be responding to this question.

QUESTION 12 –COSTS, BENEFITS AND LIKELY EFFECTS

a) Do you have any comments on the likely benefits of implementing the proposals and the likely costs of implementing them that the ISSB should consider in analysing the likely effects of these proposals?

Benefits to reporting entities may include reduced costs of capital and increased access to institutional investors. Benefits to institutional investors include the ability to compare and integrate disclosures into their investment analysis more easily (potentially without having to rely on external data sources) and to facilitate benchmarking against industry peers.

Potential costs of reporting include additional administrative or reporting burdens which may have a disproportionate impact on smaller and less sophisticated companies (see response to Question 14 below with respect to phasing in implementation and effective dates).

(b) Do you have any comments on the costs of ongoing application of the proposals that the ISSB should consider?

CCGG will not be responding to this question.

(c) Are there any disclosure requirements included in the Exposure Draft for which the benefits would not outweigh the costs associated with preparing that information? Why or why not?

CCGG cannot identify any such disclosure requirements included in the Exposure Draft.

QUESTION 13 –VERIFIABILITY AND ENFORCEABILITY

Are there any disclosure requirements proposed in the Exposure Draft that would present particular challenges to verify or to enforce (or that cannot be verified or enforced) by auditors and regulators? If you have identified any disclosure requirements that present challenges, please provide your reasoning.

CCGG will not be responding to this question.

QUESTION 14 –EFFECTIVE DATE

(a) Do you think that the effective date of the Exposure Draft should be earlier, later or the same as that of [draft] IFRS S1 General Requirements for Disclosure of Sustainability-related Financial Information? Why?

Given the interrelationship between the Exposure Draft for General Requirements and the Exposure Draft, ideally the effective dates should be at the same time, although this may create a significant compliance obligation for reporting entities which should be taken into account when considering effective dates.

If due to complexities arising from the comment process this is not possible, the Exposure Draft is comprehensive as drafted and could potentially become a stand-alone standard related to climate risks and opportunities if careful attention was paid to drafting in any additional requirements otherwise established in the Exposure Draft for General Requirements.

(b) When the ISSB sets the effective date, how long does this need to be after a final Standard is issued? Please explain the reason for your answer including specific information about the preparation that will be required by entities applying the proposals in the Exposure Draft.

CCGG does not have a view as to when the ISSB should set an effective date. We do recommend however that the ISSB consider a phased or rolling implementation given that it will take some time for reporting entities to become fully compliant with the requirements of the Exposure Draft. We would recommend that the ISSB consider requiring governance and risk management disclosures to be implemented first, with strategy, metrics and targets to follow. This is how the TCFD framework upon which the Exposure Draft is based was intended to be implemented and also is consistent with engaging the board in the foundational work of integrating sustainability-related governance and risk oversight into the governance mechanisms of the reporting entity.

In addition, we would recommend that the ISSB consider proportionality when considering effective dates and potentially provide a longer implementation for smaller and less sophisticated reporting entities. This is similar to approaches being considered in the context of proposed regulatory climate-related disclosure regimes in Canada and the United States. Such entities may not be as far along in considering or disclosing on sustainability topics and have a further learning curve than larger and more sophisticated reporting entities.

(c) Do you think that entities could apply any of the disclosure requirements included in the Exposure Draft earlier than others? (For example, could disclosure requirements related to governance be applied earlier than those related to the resilience of an entity's strategy?) If

so, which requirements could be applied earlier and do you believe that some requirements in the Exposure Draft should be required to be applied earlier than others?

See response to question 14(b) above

QUESTION 15 –DIGITAL REPORTING

Do you have any comments or suggestions relating to the drafting of the Exposure Draft that would facilitate the development of a Taxonomy and digital reporting (for example, any particular disclosure requirements that could be difficult to tag digitally)?

CCGG will not be responding to this question.

QUESTION 16 –GLOBAL BASELINE

Are there any particular aspects of the proposals in the Exposure Draft that you believe would limit the ability of IFRS Sustainability Disclosure Standards to be used in this manner? If so, what aspects and why? What would you suggest instead and why?

We do not see any aspects of the proposals that would limit the ability of IFRS Sustainability Disclosure Standards to provide a global baseline for users of general purpose financial reporting to make assessments of enterprise value. Much of the information requested, notably the information about governance practices, and risk management processes, will be useful to other stakeholders. Domestic regulators and individual jurisdictions are able to build on this baseline and require different or additional information provided it does not obscure the material information required by IFRS Sustainability Disclosures Standards. That said, CCGG encourages the ISSB to continue to work closely with and collaborate with international regulators to ensure that domestic regulatory regimes are as consistent as possible with the ISSB's global baseline. This is the most effective way to drive consistency and comparability for investors and to reduce compliance and implementation costs for reporting entities.

QUESTION 17–OTHER COMMENTS

Do you have any other comments on the proposals set out in the Exposure Draft?

Many of the disclosures in the Exposure Draft will entail forward looking information. Differing domestic regulatory requirements with respect to how such disclosures are treated for liability purposes in different jurisdictions may impact what and how reporting entities are able to disclose. While outside the scope of the ISSB's mandate and jurisdiction, the ISSB may wish to engage with international regulators in respect of this topic to endeavour to ensure that disclosures are as consistent as possible across international borders. CCGG is generally supportive of safe harbours for climate-related disclosures given the nature of such disclosures.

CONCLUSION

We thank you again for the opportunity to provide you with our comments. If you have any questions regarding the above, please feel free to contact our Executive Director, Catherine McCall, at cmccall@ccgg.ca or our Director of Policy Development, Sarah Neville at sneville@ccgg.ca.

Yours truly,

'Bruce Cooper'

Bruce Cooper
Chair, Canadian Coalition for Good Governance

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