CCGG Canadian Coalition for Good Governance
THE VOICE OF THE INVESTOR

June 16, 2022

Vanessa A. Countryman
Secretary
Securities and Exchange Commission
100 F Street NE
Washington, DC 20549-1090
VIA EMAIL: rule-comments@sec.gov

Dear Ms. Countryman,

Re: File Number S7-10-22: The Enhancement and Standardization of Climate-related Disclosures for Investors (RIN: 3235-AM87)

The Canadian Coalition for Good Governance (CCGG) welcomes the opportunity to provide the Securities and Exchange Commission (SEC) with our comments in respect of the consultation on the proposed draft Enhancement and Standardization of Climate-Related Disclosures for Investors.

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.

OVERVIEW/GENERAL COMMENTS

CCGG strongly supports the SEC's proposal to enhance and standardize climate-related disclosure for investors. The SEC's proposal puts forward a well-researched, comprehensive and thoughtful set of proposals. It goes a great deal farther in scope and ambition than the proposed National Instrument 51-107 - Disclosure of Climate-related Matters put forward by the Canadian Securities Administrators (CSA) in the fall of 2021 and we encourage the SEC to push forward with implementation of enhanced climate-related disclosures. 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 SEC's other questions, where relevant to our mandate.

RESPONSES TO QUESTIONS

A. Overview of the climate-related disclosure framework (Q1-7)

Proposed TCFD-Based Disclosure Framework

CCGG strongly supports the SEC aligning with the recommendations of the Taskforce for Climate-related Financial Disclosures (TCFD) for its climate-related disclosure framework. CCGG has been a public supporter of the TCFD since 2020. Most jurisdictions that are either looking at or have already implemented climate-related disclosures for public issuers and other entities have aligned themselves with the TCFD framework[1]. In the Canadian context, in October 2021, the CSA released draft proposed National instrument 51-107 - Disclosure of Climate-related Matters for public consultation which closely aligns with many, but not all, of the TCFD's recommendations[2]. The recently released IFRS International Sustainability Standards Board (ISSB) exposure drafts for both general requirements for sustainability disclosures and climate-related disclosures are both premised on organizing disclosures around the recommendations of the TCFD framework[3].

Given that the stated purpose of the SEC's proposed regulations with respect to climate-related disclosures is to respond to an acknowledged investor need for consistent, comparable and decision useful information as to how public companies are addressing the financial risks and impacts of climate change over the short-, medium- and long-term, it is essential that the SEC develop its regulations within the context of, and in a manner responsive to, emerging and converging global norms and expectations.

Location of the Climate-Related Risks Disclosures

CCGG strongly supports locating the climate-related risks disclosures as a separate and clearly identified section within regulation S-K. CCGG further strongly supports requiring the information to be "filed" rather than "furnished" to the SEC. This will support standardization of disclosure and comparability as between companies because investors will not have to search multiple online

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[1] Task Force on Climate-related Financial Disclosures, 2021 Status Report, October 2021 at Box ES1, which highlights eight jurisdictions with TCFD-Aligned Reporting Requirements: United Kingdom, Switzerland, Singapore, New Zealand, Japan, Hong Kong, European Union and Brazil.

[2] Canadian Securities Administrators, Consultation Climate-related Disclosure Update and CSA Notice and Request for Comment Proposed National Instrument 51-107 *Disclosure of Climate-related Matters*, October 18, 2021; also see the Canadian Office of the Superintendent of Financial Institutions, Draft Guideline B-15 Climate Risk Management, May 2022, Appendix 2-1 – which sets out disclosure expectations for FRFIs, and which specifically incorporates the TCFD Framework as well as the International Sustainability Board's (ISSB) Exposure Draft on Climate-related Disclosures, see *infra* note 3.

[3] IFRS Sustainability, Exposure Draft IFRS Sustainability Disclosure Standard: [DRAFT] IFRS S2 Climate-related Disclosures, March 2022; IFRS Sustainability, Exposure Draft IFRS Sustainability Disclosure Standard: [DRAFT] IFRS S1 General Requirements for Disclosure of Sustainability Related Financial Information, March 2022. CCGG has also supported the application of the TCFD's framework centred around governance, risk management, strategy and metrics and targets as useful to sustainability disclosures beyond climate. See CCGG letter to the Canadian Securities Administrators Re: CSA Consultation Climate-related Disclosure Update and SCA Notice and Request for Comment Proposed National Instrument 51-107 Disclosure of Climate-related Matter, January 31, 2022 at 17; CCGG letter to SEC Re: Request for public comment on climate change related disclosures, June 9, 2021 at 6-7.

locations and documents in order to find disclosures related to climate-related risks. In addition, all disclosures will be subject to the same level of oversight and scrutiny by the board and senior management, enhancing the attention paid by the company to its climate-related disclosures and supporting the reliability of what is disclosed.

How investors use the disclosure

From CCGG's perspective, governance focused disclosure related to how climate-related risks are overseen by the board and the board's capacity, competence, structures and practices related to governance of such risks is fundamental. If a company cannot articulate how material climate-related risks are identified and clearly integrated into its governance philosophy and approach, this is a significant red flag for investors. The SEC's proposed approach to align climate-related disclosures with the TCFD framework is consistent with this goal because of the TCFD's focus on governance disclosures as a key pillar in the framework.

In addition, consistent and comparable disclosures that facilitate benchmarking, both against industry peers and sector decarbonization trajectories, are also important for investors' investment and voting decisions. Climate-related disclosures are material inputs into how investors assess and value companies in the marketplace. Investors need this information to make informed investment decisions.

B. Disclosure of climate-related risks (Q8-18)

Defining short-, medium- and long-term

CCGG agrees with the SEC's proposal that companies should disclose material impacts of climate-related risks over the short-, medium- and long-term. The SEC should not prescribe 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. We agree with the proposed provision requiring a company to specify how it determines and defines short-, medium- and long-term.

Materiality

In addition, we support the investor focused definition of materiality proposed by the SEC and the proposal to require a company to discuss its assessment of the materiality of climate-related risks[4]. Investors need to understand *how* a company is identifying, measuring and managing its material climate-related risks and opportunities in order to properly assess the company's value over the long-term. In other words, the process a company uses to determine what information is material enough to disclose 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

[4] SEC draft regulation at 69: "As defined by the Commission and consistent with Supreme Court precedent, a matter is material if there is a substantial likelihood that a reasonable investor would consider it important when determining whether to buy or sell securities or how to vote… it is largely fact specific and one that requires both quantitative and qualitative considerations… The materiality determination with regard to potential future events requires an assessment of both the probability of the event occurring and its potential magnitude, or significance to the registrant".

disclosure requirements and we agree it should be mandated as part of any climate-related disclosures.

While we agree that each company's circumstances may differ, and the board of directors and management should be accountable for assessing the long-term impact of climate-related risks and opportunities on the company's operations, it may be beneficial for the SEC to provide some industry-based alignment or guidance around potentially material climate-related issues to support companies in the identification of relevant material issues and to begin to drive some consistency with respect to industry level materiality disclosures and related metrics. We note that the recently released ISSB exposure draft in respect of climate-related disclosures leverages industry specific, material climate-related disclosure requirements derived from the SASB standards (as they have now been integrated into the Value Reporting Foundation, which itself is in the process of integrating into the IFRS ISSB structure)[5].

C. Disclosure regarding climate related impacts on strategy, business model and outlook (Q19-33)

Concerns with the proposed "if/then" approach to disclosure

With respect to the SEC's proposed approach to scenario analysis and transition plans, which would require companies to make disclosures *if* they have such analysis or plans, CCGG is supportive of requiring disclosure with respect to scenario analysis and transition plans on a non-mandatory basis.

CCGG does have some concerns, however, with the SEC's proposed approach in that it could create a disincentive for companies to implement scenario analysis or create such transition plans, as no disclosure is required in their absence. Under this approach, investors would have no information as to how companies are addressing strategic resilience and the challenges posed by the transition to a low carbon economy. This could ultimately be detrimental to companies as investors would endeavour to fill in the blanks themselves using third party or proprietary in-house resources or may simply draw an adverse inference with respect to the company's approach[6].

To overcome this possible chilling effect among companies and potential related increases in cost of capital arising from an absence of information, CCGG, consistent with the position we took in our response to Canadian regulators, would encourage the SEC to consider requiring such disclosures on a 'comply or explain' basis. This is more useful to investors as it requires companies to provide some insight and context with respect to why it does or does not perform scenario analysis or have transition plans. This enables investors to engage with companies in a meaningful way that facilitates an understanding of the company's specific circumstances.

[5] IFRS Sustainability, Exposure Draft IFRS Sustainability Disclosure Standard: [DRAFT] IFRS S2 Climate-related Disclosures, March 2022 at para 10: "in identifying the significant climate-related risks and opportunities described in paragraph 9(a), an entity shall refer to the disclosure topics defined in the industry disclosure requirements (Appendix B)". CCGG has always viewed the Sustainability Accounting Standards Board's (SASB's) 77 industry-specific standards as a good model.
[6] For example, Larry Fink's 2020 Letter to CEO's "A Fundamental Reshaping of Finance".

Disclosure of Scenario Analysis

Scenario analysis disclosure should not be mandatory at this time, given the absence of standardized and comparable scenarios, methodologies and data, but as noted above, disclosure should be required on a 'comply or explain' basis. If a company 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, methodology 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. For example, the IFRS ISSB's Exposure Draft S2 Climate-related Disclosures includes a requirement for a reporting entity to use scenario analysis "unless it is unable to do so" in which case it must use an "alternate method or technique to assess its climate resilience"[7]. Where an alternative method is used, the exposure draft requires specific disclosure to be made including, among other items, with respect to methods and techniques used, assumptions made and their relevance, time horizons, analytical inputs and the reason a scenario analysis could not be used[8]. The ISSB exposure draft illustrates the need for structured, comparable disclosures to facilitate investor understanding with respect to how companies are addressing strategic resilience, but also recognizes that a degree of flexibility is required, similar to the 'comply or explain' approach currently deployed in other regulatory disclosures.

To be of more significant use for investors, companies should further disclose how their strategy might change to address potential risks and opportunities revealed by the scenario analyses or stress tests.

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

[7] IFRS Sustainability, Exposure Draft IFRS Sustainability Disclosure Standard: [DRAFT] IFRS S2 Climate-related Disclosures, March 2022 at para 15; Also see the UK Department for Business, Energy & Industrial Strategy, Consultation response: Mandatory climate-related financial disclosures by publicly quoted companies, large private companies, and LLPs, October 2021, at page 14: in response to consultation feedback on proposed climate-related disclosure obligations, the UK government reconsidered its initial position excluding scenario analysis from the proposed climate-related disclosure regulations applicable broadly across the economy which includes public companies, LLPs and large private companies. In its response the UK government noted as follows: "Given the clear message from stakeholders on the importance of scenario analysis for the policy to meet our stated ambitions, and recurring theme of respondents proposing that qualitative scenario analysis would be an appropriate first step, our final regulations will include a requirement for in scope companies and LLPs to include an analysis of the resilience of the company's business model and strategy, taking into consideration different climate-related scenarios". The UK will also issue supplementary guidance confirming that qualitative assessments will be sufficient to meet the obligation.
[8] IFRS Sustainability, Exposure Draft IFRS Sustainability Disclosure Standard: [DRAFT] IFRS S2 Climate-related Disclosures, March 2022 at para 15(ii)(1)-(7).

disclose how it is approaching strategic resilience, then there is a real risk that investors will fill in the blanks through other sources.

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. Accordingly, the disclosure requirements with respect to scenario analysis should be reassessed on an on-going basis, with a view to making such disclosures mandatory and consistent with evolving leading best practices.

D. Governance disclosure (Q34-41)

34. Should we require a registrant to describe, as applicable, the board's oversight of climate-related risks, as proposed? Should the required disclosure include whether any board member has expertise in climate-related risks and, if so, a description of the nature of the expertise, as proposed? Should we also require a registrant to identify the board members or board committee responsible for the oversight of climate-related risks, as proposed? Do our current rules, which require a registrant to provide the business experience of its board members, elicit adequate disclosure about a board member's or executive officer's expertise relevant to the oversight of climate-related risks?

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, and that there is ongoing organizational understanding and ownership of the business impacts of such risks[9]. Shareholders require transparency with respect to how a board is assessing and determining whether and which climate-related risks are material to it and what practices are in place to oversee risks that are identified.

CCGG does not believe that there is a prescriptive, one size fits all approach to the board 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 SEC's proposed required governance disclosures 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, as follows:

- **Board Composition:** CCGG agrees companies should disclose whether any board member has expertise in climate-related risks and a description of the nature of the expertise. We would

[9] CCGG's The Directors E&S Guidebook, May 2018 at 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.

further advocate for disclosure with respect to how the climate-related expertise is relevant to the company's 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[10];

- **Board Structure:** CCGG agrees that a company should identify the board members or board committee responsible for the oversight of climate-related risks but the SEC 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-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; these should be regularly reviewed as risks evolve and be readily accessible to shareholders[11];

- **Board Education:** CCGG is of the view that notwithstanding whether or not a board determines that specific climate or ESG expertise is a required skill set in an individual board member, board education with respect to business relevant climate and other complex ESG issues is important in order to build awareness and 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 or ESG education has been received by the board and its committees in its annual disclosure[12].

35. Should we require a registrant to disclose the processes and frequency by which the board or board committee discusses climate-related risks, as proposed?

Yes. Oversight of material risk factors including those related to climate impacts is a core function of the board[13]. Investors expect environmental and social risks, including 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

[10] CCGG's The Directors E&S Guidebook, May 2018 at 18, see recommended practices 13-15 focused on Board Composition.
[11] CCGG's The Directors E&S Guidebook, May 2018 at 19-20, see recommended practices 16-18 focused on Board Structure.
[12] CCGG's The Directors E&S Guidebook, May 2018 at 20-21, see recommended practices 21 focused on Board Education.
[13] CCGG's The Directors E&S Guidebook, May 2018 at 14; 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."

that the board should disclose to investors its approach to climate-related risk oversight. This would include the process the board uses to review management's risk assumptions, materiality assessment and risk prioritization[14]. In our view, this disclosure should also extend to include the frequency by which the board or board committee discusses climate-related risks.

36. Should we require a registrant to disclose whether and how the board or board committee considers climate-related risks as part of its business strategy, risk management, and financial oversight, as proposed? Would the proposed disclosure raise competitive harm concerns? If so, how could we address those concerns while requiring additional information for investors about how a registrant's board oversees climate-related risks?

Yes, see response to question 35. 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)[15].

We are not of the view that the proposed disclosure would raise competitive harm concerns and would encourage the SEC to consider requiring disclosure with respect to climate-related opportunities. We note that the disclosures outlined in the IFRS ISSB Exposure Draft Standard S2 - Climate-related Disclosures incorporates both risks and opportunities in its requirements including, but not limited to, disclosure of governance, climate-related risks, strategy and decision-making[16]. Similarly, disclosures required by the Canadian Securities Administrators under their proposed National Instrument 51-107 also propose new disclosures for governance processes in relation to material risks and opportunities[17]. Given this direction of travel, an absence of such disclosure in the context of how a business intends to address material climate-related risks and pursue opportunities to create value for shareholders is increasingly going to be considered a red flag by investors potentially leading to a competitive disadvantage in attracting investment.

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

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

[16] IFRS Sustainability, Exposure Draft IFRS Sustainability Disclosure Standard: [DRAFT] IFRS S2 Climate-related Disclosures, March 2022 at paras 7-13. Also see FCLT Global, Comment to the SEC: The Enhancement and Standardization of Climate-Related Disclosures for Investors, May 23, 2022: "..information about how companies are approaching significant risks and opportunities to their business posed by climate change is material to long-term investment decision-making".

[17] *Supra*, note 2 at 4.

37. Should we require a registrant to disclose whether and how the board sets climate-related targets or goals, as proposed? Should the required disclosure include how the board oversees progress against those targets or goals, including whether it establishes any interim targets or goals, as proposed? Would the proposed disclosure raise competitive harm concerns? If so, how could we address those concerns while requiring additional information for investors about how a registrant's board oversees the setting of any climate-related targets or goals?

Yes. See answers to questions 35 and 36. Where a company has climate-related targets or goals, investors would expect disclosure as to how the board or a delegated committee exercises 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.

38. Should we require a registrant to describe, as applicable, management's role in assessing and managing climate-related risks, as proposed? Should the required disclosure include whether certain management positions or committees are responsible for assessing and managing climate-related risks and, if so, the identity of such positions or committees, and the relevant expertise of the position holders or members in such detail as necessary to fully describe the nature of the expertise, as proposed? Should we require a registrant to identify the executive officer(s) occupying such position(s)? Or do our current rules, which require a registrant to provide the business experience of its executive officers, elicit adequate disclosure about management's expertise relevant to the oversight of climate-related risks?

Yes. See answer to question 35. 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[18]. CCGG supports full disclosure with respect to how and to whom within the company's organization accountability for climate-related risks is assigned.

39. Should we require a registrant to describe the processes by which the management positions or committees responsible for climate-related risks are informed about and monitor climate-related risks, as proposed? Should we also require a registrant to disclose whether and how frequently such positions or committees report to the board or a committee of the board on climate-related risks, as proposed?

Yes, see answers to questions 35 and 38.

[18] CCGG's The Directors E&S Guidebook, May 2018 at 14-16, see recommended practices 6-9.

40. Should we specifically require a registrant to disclose any connection between executive remuneration and the achievement of climate-related targets and goals? Is there a need for such a requirement in addition to the executive compensation disclosure required by 17 CFR 229.402(b)?

Yes. Information about the integration of climate-related metrics into executive remuneration and board oversight of incentives would also be useful. Executive compensation is a key mechanism for incenting behaviors and performance to achieve the company's short-, medium- and long-term strategic priorities. The board has 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; and
- in circumstances where climate-related priorities are excluded from performance metrics, the board should explain why they are not captured[19].

Disclosure related to the link between executive management renumeration and climate-related performance considerations is also emerging as a key component of disclosure under both the TCFD's October 2021 Guidance on Metrics, Targets and Transition Plans and the IFRS ISSB Exposure Draft Standard S2- Climate-related Disclosures[20]. In both documents executive remuneration is identified as a cross industry, climate-related metric against which all organizations should disclose to drive comparability. This recognition underscores the importance to investors of clear disclosures with respect to how executive incentive structures and allocations of compensation are connected to stated climate-related strategic goals and priorities.

[19] CCGG's The Directors E&S Guidebook, May 2018 at 22-23, see recommended practices 25.

[20] TCFD October 2021 Guidance, Taskforce on Climate-related Financial Disclosures Guidance on Metrics, Targets, and Transition Plans, October 2021, at page 17; IFRS Sustainability, Exposure Draft IFRS Sustainability Disclosure Standard: [DRAFT] IFRS S2 Climate-related Disclosures, March 2022, at para 21(g). While the TCFD includes examples of possible metrics it acknowledges that it is a framework and not a standard. The ISSB exposure draft would (if implemented) represent a standard and the exposure draft includes two specific remuneration metrics against which disclosure would be required by all reporting entities, these include: (i) the percentage of executive management remuneration recognized in the current period that is linked to climate-related considerations; and (ii) a description of how climate-related considerations are factored into executive remuneration.

41. As proposed, a registrant may disclose the board's oversight of, and management's role in assessing and managing, climate-related opportunities. Should we require a registrant to disclose these items?

Yes, see answer to question 36.

E. Risk management disclosure (Q42-51)

Risk management process

As already noted above in our response to Section B-Climate Risk Disclosure, CCGG supports the SEC's proposed risk management disclosures. These include a company describing its processes for identifying, assessing, and managing climate-related risks, how it decides to mitigate, accept, or adapt to a particular risk, how it prioritizes climate-related risks and how it determines to mitigate a high priority risk. As also noted in our responses to Section D Governance, a company should disclose if and how risks are integrated into overall risk management systems such as an ERM, how the board or a committee of the board exercises oversight for assessing climate-related risks, and how the board or a committee of the board holds management accountable in respect of climate-related risk management.

Transition plans

Similar to scenario analysis, CCGG is of the view that the *if/then* approach to transition plan disclosure proposed by the SEC may create a chilling effect by disincentivizing companies from developing such plans to avoid such disclosures. Instead, we recommend adopting a 'comply or explain' approach as these plans have become increasingly important to investors.

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[21]. 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[22]. This underlines the importance for

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[21] 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.

[22] 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°C above pre-industrial levels and pursuing efforts to limit the temperature increase to 1.5°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°C approved by governments on 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.

companies of undertaking transition 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 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[23]. Notably, in the ISSB climate-related disclosure exposure draft, the disclosure of transition plans is included as a required disclosure aligned with the TCFD's recommendation to describe the impact of significant climate-related risks and opportunities on the organization's strategy and decision making[24].

Forward looking information and "safe harbours"

CCGG acknowledges that the SEC is not proposing to introduce any new liability protection measures for climate-related disclosures except for those related to Scope 3 emissions. We further recognize that climate science and climate-related accounting and disclosure systems are evolving in real-time. Matters that appear material now might later be determined not to be material, or conversely matters may turn out to be more material than originally disclosed. As such, we believe that liability protection (whether provided under existing legislation or through a new mechanism) should be available for all climate-related disclosures. The existence of a safe harbor encourages issuers to provide more detail on risks and opportunities and avoid reducing disclosures to "boilerplate" messages that are safer, legally, but provide little information to investors.

F. Financial statement metrics (Q52-92)

CCGG will not be responding to these questions.

G. GHG emissions metrics disclosure (Q93 -134)

Emissions Disclosures

The SEC's proposed GHG emissions disclosures are generally consistent with the TCFD recommendations which require Scope 1 and 2 disclosure and Scope 3, where appropriate. 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

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[23] 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.

[24] IFRS ISSB S2 Climate-related Disclosure, *surpa*, note 3, at para 8(c) which incorporates by reference specific disclosures related to transition plans detailed at para 13.

GHG emissions is subject to materiality; however, the Task Force encourages all organizations to disclose such emissions[25].

It is agreed that climate change is a systemic risk to economies and communities. For investors to make more 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 issuer 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[26].

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 an issuer, and how the issuer 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.

Scope 3 Safe Harbour

For the reasons set out above in response to Section E - Risk Management Disclosures, CCGG supports the SEC's proposal to implement a safe harbor provision for disclosure of Scope 3 emissions by or on behalf of an issuer provided such disclosures are made on a reasonable basis and are disclosed in good faith.

GHG Protocol

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.

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[25] TCFD October 2021 Guidance, *supral*, note 20, at page 15.

[26] 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.

The SEC's proposed disclosures would permit issuers to disclose in accordance with the GHG Protocol but would not require it. In our view, issuers should not be permitted to employ other alternative reporting standards as this would undermine the objective of having consistent and comparable data. If the SEC pursues its proposed approach not to require a specific methodology, we agree that a company should disclose the methodology, significant inputs and significant assumptions used to calculate GHG metrics.

H. Attestation of scope one and scope two emissions disclosure (Q135-167)

Yes. CCGG supports the SEC's proposal that there should be assurance on GHG Scope 1 and Scope 2 emissions reporting. Independent assurance on the accuracy, completeness and consistency of GHG emissions data would be beneficial to both internal decision-making and for investors and other external stakeholders[27]. The staged approach proposed by the SEC, moving from compliance to limited assurance to reasonable assurance over a three-year period with a longer lead time for accelerated filers, is reasonable.

I. Targets and goals disclosure (Q168-174)

See responses with respect to Transition Plans under Section E – Risk Management Disclosure.

J. Registrant's subject to the climate related disclosure rules and affected forms (Q175-189)

CCGG strongly supports the formation of the ISSB and the trend toward global standardization as our Members invest internationally and, to the extent disclosure globally can coalesce around a common, standardized set of baseline disclosures, this facilitates comparability, and supports analysis with respect to the globally systemic climate implications and carbon risk faced by their portfolios, which is all decision-useful. We acknowledge that the SEC is actively engaged in these global developments and there is strong, albeit not complete, alignment between the SEC's proposal and the direction of travel indicated in the IFRS ISSB Exposure Draft [S2] Climate-related Disclosures.

Given this, we would encourage the SEC to permit foreign filers to disclose against the ISSB standard once finalized with a view to closing gaps over the longer term, noting that the ISSB draft standard itself is currently under public consultation, so the gaps will not be apparent immediately.

Similarly, the SEC is proposing not to amend Form 40-F with respect to the continuous disclosure obligations of Canadian issuers under the Multijurisdictional Disclosure System (MJDS), which would enable MJDS eligible Canadian companies to rely on any Canadian disclosures regime with respect to climate-related issues. We note that, as with the ISSB Exposure Draft S2 Climate-related Disclosures, the Canadian Securities Administrators are actively consulting on proposed climate-

[27] The SEC may wish to satisfy itself that there will be sufficient capacity within the audit/assurance community to satisfy additional requirements as they are phased in.

related disclosures through proposed National-Instrument 51-107. In our view, the SEC's approach is appropriate provided that the CSA implements a disclosure regime substantively aligned with the TCFD (as currently proposed).

The CSA's proposed disclosures, however, are not as robust as those proposed by the TCFD or the SEC. Depending on how all the respective simultaneous and on-going consultations land as between the CSA, the ISSB and the SEC, the SEC may consider requiring MJDS eligible Canadian companies to provide additional disclosures aligned with SEC requirements, where there are substantive gaps. For example, the CSA proposal as currently proposed does not require GHG Scope 1, 2 or 3 emissions disclosure requirements except on a comply or explain basis and excludes scenario analysis and transition plans. As with the ISSB draft standard, however, the material gaps may not be immediately apparent such that this issue should likely be revisited once consultations are complete and final requirements are known.

K. Structured data requirement (Q190-193)

CCGG supports the requirement for companies to tag the climate-related disclosure in a structured, machine-readable data language using Inline XBRL.

L. Treatment for purposes of Securities Act and Exchange Act (Q194-196)

CCGG agrees with the SEC's proposal that the climate-related disclosures should be 'filed' and not 'furnished.' Please see response to Section A-Overview of the Climate-related Disclosure Framework under the heading "Location of the Climate-Related Risks Disclosures."

M. Compliance date (Q194-201)

We agree, in principle, with a phased-in transition of the disclosures based on the size/sophistication of the company and the nature and complexity of the disclosure.

We agree with the proposal that Large Accelerated Filers should be required to achieve implementation of all disclosure except for Scope 3 emissions metrics within one year of the effective date, and Scope 3 and associated intensity metric disclosure within two years.

With respect to the implementation timeframes for Accelerated and Non-Accelerated Filers, and for Smaller Reporting Companies, the proposed approach of allowing two- and three-year periods before any disclosures are required creates too long of a gap where no information from these groups is mandated to be made available to investors. We would recommend that governance and risk management disclosures should be required from all registrants within one year of the effective date with the effect that all registrants would be disclosing under these categories at the same time (E.g. if effective date is December 31, 2022, and reporting period is 2023, governance and risk management disclosures would be required in 2024).

Governance and risk management disclosures are foundational to pivoting the board and management toward integrating climate-related risks and opportunities into a company's oversight, strategy and business planning. They are also not contingent on materiality analysis. Other disclosures may be gradually phased in for different categories of registrant over different numbers of years, depending on their filer classification and their level of maturity.

TCFD first published its recommendations in 2017. The SEC indicated in the spring of 2021 that it intended to move forward with climate-related disclosures and held a preliminary consultation in the spring of that year that asked questions related to alignment with external frameworks[28]. There has been growing momentum for a significant period of time that climate-related disclosures would be forthcoming and that disclosures would likely draw heavily on the TCFD framework.

Larger, more sophisticated Canadian public companies are already making climate-related disclosures, including with respect to greenhouse gas emissions[29].

We recognize that smaller public companies with less resources may require additional time to fully adopt the proposed climate-related disclosure regime. The SEC proposal, however, does not encourage such companies to implement the disclosure requirements in an incremental and iterative manner wherein they can build on work year over year. Therefore, we do not agree with the SEC's proposed approach with respect to Accelerated Filers, Non-Accelerated Filers and the Smaller Reporting Companies.

We would encourage the SEC to adopt a graduated and phased in approach for all climate-related disclosures, starting with requirements to disclose around governance and risk management on the basis that these are not subject to materiality assessments, with compliance for more complex disclosures such as those to do with strategy and metrics and targets to be phased in over time for all but the Large Accelerated Filers (for whom the SEC's proposed implementation timeframe would continue to apply with disclosures first made in 2024 based on a 2023 reporting period and a 2022 effective date). This is a more granular application of what has already been proposed by the SEC with respect to providing an extra year for the Large Accelerated Filers, and Accelerated Filer and Non-Accelerated Filer categories to comply with the GHG emissions Scope 3 disclosures.

We are of the view that the approach recommended by the SEC will be resource intensive for smaller and less sophisticated categories of registrants because it is not a phased-in implementation, rather it is a delayed reporting requirement that creates the expectation that companies will have complete reporting after two or three years. This has the potential to create a heavily resource intensive "compliance crunch" in subsequent years as opposed to a smooth ramp up that would allow a more efficient allocation of time and resources as expertise within the company grows. This was the intended process for TCFD and why it is colloquially described as a "journey."

Additionally, from a resource perspective, our recommendation to require the governance and risk management aligned disclosure sooner should not be onerous, as we are asking about how they govern and manage climate change. This may not necessarily mean dedicated resources, especially if the issuer is small and less complex.

[28] Acting Chair Allison Herren Lee, Statement: Public Input Welcomed on Climate Change Disclosures, March 15, 2021, US Securities and Exchange Commission.
[29] S. Cleary & A. Hakes, Assessing Current Canadian Corporate Performance on GHG Emissions, Disclosures and Target Setting, April 2022, Smith School of Business: Queens University.

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 [redacted] or our Director of Policy Development, Sarah Neville at [redacted]

Yours truly,

Bruce Cooper

Bruce Cooper
Chair, Canadian Coalition for Good Governance

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- Alberta Teachers' Retirement Fund (ATRF)
- Archdiocese of Toronto
- BlackRock Asset Management Canada Limited
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