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Sent via Email

Secretary Vanessa Countryman
U.S. Securities and Exchange Commission
100 F Street, NE
Washington, DC 20549
rule-comments@sec.gov

RE: Public Comment on its Enhancement and Standardization of Climate-Related Disclosures for Investors Proposed Rule — Release Nos. 33-11042; 34-94478; **File No. S7-10-22**

Dear Secretary Countryman,

Thank you for the opportunity to respond to the Security and Exchange Commission's (SEC) request for public comment on its Enhancement and Standardization of Climate-Related Disclosures for Investors proposed rule (the "Proposed Rule") released on March 21, 2022.

This submission is made on behalf of the Canada Post Corporation Pension Plan (CPCPP), which is one of Canada's largest corporate sponsored pension plans, with $CAD 30 billion in assets under management, which includes $CAD 3 billion in US public equity holdings[1].

CPCPP writes in support of File No. S7-10-22: The Enhancement and Standardization of Climate-Related Disclosures for Investors. We appreciate all of your hard work to ensure the proposal meets the needs of investors for material climate-related information. Mandatory and globally consistent climate disclosures would provide investors with important material and other critical information about how companies contribute and respond to climate change, helping address investors' needs today, creating more efficient markets, and facilitating capital formation for investors and businesses.

Currently, in assessing issuers' financial and other data, there is a lack consistent, comparable and reliable climate-related information which is a barrier to fully consider potential risks and opportunities in line with our fiduciary duties. Investors need comprehensive, comparable and decision-useful data about current and forward-looking climate-related risks, implemented with an appropriate long-term governance structure with third-party verification. Climate-related risks have present financial consequences that, as investors in public companies, we consider in making investment and voting decisions and in considering implications for the company's future performance and alignment with our long-term goals.

[1] https://www.cpcpension.com/db/documents/RTM_2021_E.pdf (page 15)

As a user of issuer disclosures, we provide comments on specific questions in the consultation as outlined below.

Section A: Overview of the Climate-Related Disclosure framework (TCFD-based & location)

Q2: If adopted, how will investors utilize the disclosures contemplated in this release to assess climate-related risks?

Our Statement of Investment Policies and Procedures[2] (SIPP) outlines how we consider risks and opportunities related to climate change, in the investment of the CPCPP assets (excerpt below):

> *"6.1 The Corporation believes that long-term value creation requires effective management of environmental and social risks and opportunities, and that good governance leads to better returns. Consequently, the Corporation takes into account environmental, social and governance (ESG) factors when setting the asset allocation for the Fund, as well as in the development of the investment management structure and mandates in line with the Benchmark Portfolio.*
>
> *6.2 The Corporation recognizes climate change is a systemic and material risk to the global economy. The Corporation recognizes that the impacts of climate change will be much lower at the temperature increase of 1.5°C above the preindustrial era compared with 2°C and is supportive of global efforts to limit the temperature increase to 1.5°C with limited or no overshoot. Consequently, climate considerations, with respect to physical and transition risk, are considered in our investment strategy, engagement activity and voting practices of the Fund.*
>
> *6.3 The Corporation expects Managers to integrate material ESG factors as part of their investment analysis and decision-making process. The Corporation expects Managers to be cognizant of climate change risks and opportunities (both physical and transition risks) within their investment processes and stewardship activities. The Corporation will take into account the Managers' ESG and climate change related policies, processes and reporting in the appointment of Managers. The Corporation will also monitor the Managers' implementation and evolution of such policies.*
>
> *6.4 The Corporation has developed a Climate Action Plan for the Plan which provides additional detail into how the Corporation addresses climate risk across the asset classes, beginning with public equity, beyond what is outlined in this Statement. The Climate Action Plan will be updated as other asset classes are added and as the Corporation's approach evolves."*

As outlined in the CPCPP's Corporate Governance Principles and Proxy Voting Guidelines[3] (excerpt below), we require high quality and decision-relevant climate disclosures from companies in which we invest or may invest. CPCPP may vote against directors for failure to provide adequate disclosures.

> ***"Environmental and Social Risk Management:*** *Board directors are responsible for ensuring the company has systems in place to effectively assess and manage risk, including environmental and social risks. Directors and sustainability committees (or equivalent) should also be transparent in their efforts to assess and manage these risks. Directors should ensure that the company is providing investment-relevant climate-related disclosure." (Section A.3)*
>
> *"Climate change is a systemic and material risk to the global economy and humanity. Failure to act will have catastrophic and pervasive consequences including for capital markets and asset valuations.*

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[2] https://www.cpcpension.com/homepage/documents/SIPP_RPP_DB_E.pdf (updated March 2022)

[3] https://www.cpcpension.com/homepage/documents/Proxy_Voting_Guidelines_E.pdf (updated November 2021)

Consequently, climate considerations, with respect to physical and transition risk, are considered in our investment strategy, engagement activity and voting practices.

The Intergovernmental Panel on Climate Change (IPCC) has reported that, in order to avoid catastrophic impacts from climate change, we must limit the average global temperature rise to no more than 1.5°C above the preindustrial era. To achieve this target, global carbon emissions must decline by approximately 45% relative to 2010 levels by 2030, and reach net zero by 2050 at the latest. This will require unprecedented multi-stakeholder action including by individual companies. Accordingly, we expect all companies to align with this ambition and clearly articulate climate strategies and transition pathways that will deliver net zero emissions by the middle of the century. Climate targets should be built around robust methodologies, such as the Science Based Targets Initiative (SBTi) framework. Climate strategies should include near- and medium-term targets and provide investors an understanding of how capital allocation will be adjusted over time to support the transition of the business.

We believe that high quality and decision-relevant climate disclosures are critical to enabling change and we support the recommendations of the Financial Stability Board's Taskforce on Climate-Related Financial Disclosures (TCFD). We expect companies to report climate risks, strategy, policies and performance in line with the TCFD disclosure framework. This should include stress testing of business models and assets against various climate change scenarios." (Section F.2)

As noted in our the Canada Post 2021 Annual report (see 'social and environmental leadership' section), in 2021, the Pension Committee of the Canada Post Corporation Board of Directors approved a commitment to support the global goal of achieving net-zero emissions by 2050 or sooner. CPCPP is now developing a Climate Action Plan for the pension fund in line with this commitment. CPCPP requires consistent, comparable and accurate information on the full range of risks climate change presents to our investment portfolio.

Q3, 189 – Alignment with TCFD and ISSB

CPCPP supports the alignment with the TCFD disclosure framework and related implementation guidance provided by the TCFD. In fact, the proposed SEC rule could be strengthened to more closely align with the TCFD disclosure framework and the TCFD's most recent implementation guidance[4] (e.g. see our comments below on Transition Plans).

More than 2,600 organizations globally, including over 1,547 companies with a market capitalization of $25 trillion and financial institutions managing $194 trillion have expressed support for the Financial Stability Board's TCFD framework recommendations.[5] As noted above under Q2, we expect companies that we invest to report in line with the TCFD recommendations.

In October 2021, The Canadian Securities Administrator (CSA) released for consultation, the Proposed National Instrument 51-107 Disclosure of Climate-related Matters[6]. The Proposed CSA Instrument is aligned with the TCFD recommendations, with certain modifications (e.g. the Instrument, as proposed would not require disclosure of scenario analysis and scope 3 emissions). CPCPP made a submission[7]

[4] TCFD, Annex: Implementing the Recommendations of the Task Force on Climate-related Financial Disclosures (October 2021), and Guidance on Metrics, Targets, and Transition Plans (October 2021)
[5] Financial Stability Board, *Task Force on Climate-related Financial Disclosures: 2021 Status Report* (October 2021)
[6] https://www.osc.ca/en/securities-law/instruments-rules-policies/5/51-107/51-107-consultation-climate-related-disclosure-update-and-csa-notice-and-request-comment-proposed
[7] https://www.osc.ca/sites/default/files/2022-02/com_20220211_51-107_ahmadi-lockridgek.pdf

expressing our support of TCFD aligned disclosure (including disclosure of scenario analysis and Scope 3 emissions).

In March 2022, the International Sustainability Standards Board released the Exposure Draft of Climate-related Disclosures[8], which includes the TCFD disclosure requirements. International Organization of Securities Commissions (IOSCO) has indicated its "aim is to endorse the standard before the end of 2022 if it is satisfied that the standard sets a practical and effective global baseline for climate disclosures to financial markets across the globe"[9].

International coordination and harmonization of disclosure regimes and definitions is critical. As a global investor, CPCPP has exposure to assets in over 50 countries. CPCPP welcomes ISSB's establishment of a working group to enhance compatibility between global baseline and jurisdictional initiatives[10]. We encourage the SEC to support greater global harmonization of international disclosure frameworks to minimize conflicting requirements and market fragmentation.

CPCPP supports the SEC allowing the use of the ISSB climate disclosure standard as an alternative reporting provision provided that its use is limited to foreign private issuers.

Q30: Should we require a registrant to disclose analytical tools, such as scenario analysis, that it uses to assess the impact of climate-related risks on its business and consolidated financial statements, and to support the resilience of its strategy and business model, as proposed?

CPCPP supports the SEC's proposal to require issuers who implement scenario analyses to describe the scenario analysis they use as part of its "Strategy, business model, and outlook" disclosures. We endorse the SEC's clarification that scenario analysis disclosure is covered under the existing safe harbor from liability.

The SEC rule could be strengthened by requiring scenario analysis by all issuers. Further, we recommend that companies be required to consider a scenario that limits global warming to 1.5°C[11] with limited or no overshoot.

This type of disclosure is critical to helping investors understand corporate preparedness for various potential future outcomes. The TCFD notes that scenario analysis is an important tool for organizations to use in their strategic planning processes, and can help organizations consider a broader range of assumptions, uncertainties, and potential future states when assessing financial implications of climate change. Further, the TCFD's 2021 guidance document, *Implementing the Recommendations of the Task Force on Climate-related Financial Disclosures*, included a specific update to the guidance on the scenario analysis in that the recommended disclosure has been "revised to more explicitly address disclosure of potential financial impacts on organizations".

We recognize that not all issuers have developed the capabilities to undertake scenario analysis. Thus, the SEC could vary requirements for reporting on climate scenario analysis for firms as a reflection of the material risk they face and resources. For example, higher standards should apply to larger firms due to their importance for financial sector or general market stability. Whereas smaller firms that face

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[8] https://www.ifrs.org/news-and-events/news/2022/03/issb-delivers-proposals-that-create-comprehensive-global-baseline-of-sustainability-disclosures/

[9] IOSCO, Media Release at COP26 (November 2021) https://www.iosco.org/news/pdf/IOSCONEWS625.pdf

[10] https://www.ifrs.org/news-and-events/news/2022/04/issb-establishes-working-group-to-enhance-compatibility-between-global-baseline-and-jurisdictional-initiatives/

[11] The Glasgow Climate Pact "*recognizes* that the impacts of climate change will be much lower at the temperature increase of 1.5°C compared with 2°C and *resolves* to pursue efforts to limit the temperature increase to 1.5°C."

material financial risk from climate change could be given the flexibility to utilize qualitative or narrative-based scenarios aimed at improving their understanding of key issues such as changing carbon prices or potential physical risk exposures under different temperature scenarios. Expectations could become more rigorous over time as capacity builds.

It is important to note that the ISSB's Exposure Draft on Climate-related Disclosures[12] as drafted states: "The entity shall use climate-related scenario analysis to assess its climate resilience unless it is unable to do so. If an entity is unable to use climate-related scenario analysis, it shall use an alternative method or technique to assess its climate resilience." When scenario analysis is used, disclosure should include:

- which scenarios were used for the assessment and the sources of the scenarios used;
- whether the analysis has been conducted by comparing a diverse range of climate-related scenarios;
- whether the scenarios used are associated with transition risks or increased physical risks;
- whether the entity has used, among its scenarios, a scenario aligned with the latest international agreement on climate change;
- an explanation of why the entity has decided that its chosen scenarios are relevant to assessing its resilience to climate-related risks and opportunities;
- the time horizons used in the analysis;
- the inputs used for the analysis; and
- assumptions about the way the transition to a lower-carbon economy will affect the entity.

The SEC could play a critical role here by establishing standardized assumptions and/or issuing minimum requirements for scenario analysis. We encourage the SEC to work with other regulators and standard setters to ensure global consistency. There are already many open-source resources to assist issuer (e.g. through the TCFD knowledge hub[13], etc.).

34. 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?

CPCPP supports the SEC's inclusion of disclosure of board and management oversight of climate risks within its proposal. The proposal could be strengthened by requiring disclosure of:

- the application of oversight for both risks *and opportunities*;
- how the board and management ensures that the appropriate skills and competencies are available to oversee strategies designed to respond to climate-related risks and opportunities;
- whether executive remuneration is tied to climate-related performance, and if so, how.

Q42. Should we require a registrant to describe its processes for identifying, assessing, and managing climate-related risks, as proposed?

CPCPP supports the SEC proposal's risk management disclosure requirements as disclosures would provide investors with insights into how companies identify, assess and manage risks. The proposed rule can be strengthened to cover both climate-related risks *and opportunities*.

Q46 – 51. Transition Plans

CPCPP supports the proposal's risk management provisions focused on transition plan disclosure because such disclosure helps investors verify the credibility of organizations' commitments related to

[12] ISSB, Exposure Draft ED/2022/S2 Climate-related Disclosures (March 2022)
[13] https://www.tcfdhub.org/

climate change, which is vital to investors' assessment of risks. We endorse the SEC's clarification that transition plan disclosure is covered under the existing safe harbor from liability.

We recommend that the SEC phase-in mandatory disclosure of an issuer's transition plan which demonstrates the degree to which the entity is working to limit global warming to 1.5°C and in alignment with the latest international agreement on climate change.

In fact, the TCFD's updated guidance *Implementing the Recommendations of the Task Force on Climate-related Financial Disclosures* (this 2021 version supersedes the 2017 version, which was referred to as the "Annex") specifically states that issuers should disclose their transition plan as follows[14]:

> *"Organizations that have made GHG emissions reduction commitments, operate in jurisdictions that have made such commitments, or have agreed to meet investor expectations regarding GHG emissions reductions should describe their plans for transitioning to a low-carbon economy, which could include GHG emissions targets and specific activities intended to reduce GHG emissions in their operations and value chain or to otherwise support the transition."*

The SEC should reference the recent TCFD Guidance Metrics, Targets and Transition Plans[15] for reporting issuers, and indicate a timeline by which such disclosures should be made. This TCFD guidance document itemizes key information that organizations should disclose regarding their plans for transitioning to a low carbon economy (see Table E1, Transition Plan Elements, on page 42).

Q168 – 172. Targets and Goals

CPCPP supports the SEC's "Targets and goals" provision, which would require disclosure if the issuer has set GHG reduction targets/goals or "any other climate-related target or goal (e.g., regarding energy usage, water usage, conservation or ecosystem restoration, or revenues from low-carbon products)". The proposal requires disclosure of "[t]he defined baseline time period and baseline emissions against which progress will be tracked with a consistent base year set for multiple targets", but it does not mention baselines for energy usage, water usage, or other topics.

CPCPP believes the proposal could be strengthened by clarifying that baselines that must be disclosed may not only pertain to emissions, but also—where material—energy usage, water usage, or other quantifiable metrics for which the issuer has set a target.

Q94 – 100, 133. GHG Emissions

CPCC supports the SEC's inclusion of a GHG emissions reporting requirement in its proposal because this information is critical to investors' understanding of the quality of a company's earnings in the face of climate change and the energy transition, as well as to an understanding of a company's liquidity and capital resources, especially in light of the climate commitments of financial institutions to restrict financing of emissions-intensive activities.

CPCPP supports the proposal's provision requiring issuers to disclose their total Scope 3 emissions if material, or if they have set a GHG emissions reduction target or goal that includes its Scope 3 emissions.

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[14] https://assets.bbhub.io/company/sites/60/2021/07/2021-TCFD-Implementing_Guidance.pdf
[15] https://assets.bbhub.io/company/sites/60/2021/07/2021-Metrics_Targets_Guidance-1.pdf

CPCPP believes the proposal could be strengthened in several ways. The SEC could provide further guidance to issuers on how they should make a materiality determination for Scope 3 emissions disclosure. The SEC could include additional elements in the materiality test, including whether the issuer has set a Scope 3 target, whether the issuer has performed an assessment of its Scope 3 emissions, whether there are relevant industry standards for determining materiality, and whether there are matters that are individualized or particular to the issuer. Finally, the SEC could require Scope 3 disclosure by smaller reporting companies, phasing it in at an appropriate time.

CPCPP recommends that, with regards to determining the significance of Scope 3, the SEC could consider that the TCFD refers to the Science Based Target Initiative (SBTi) 40% threshold[16].

CPCPP endorses the SEC's clarification that the Scope 3 category "Investments" includes "financed emissions". To strengthen the proposal with regards to banks and financial institutions, the SEC could provide further discussion regarding activities that qualify as "financed emissions".

CPCPP supports the use of a safe harbor for Scope 3 emissions disclosure.

Q24, 101, 173. OFFSETS

CPCPP supports the SEC's inclusion of disclosures about carbon offsets within the "Strategy, business model, and outlook" and "Targets and goals" provisions of its proposal.

CPCPP also supports excluding the impact of any purchased or generated offsets from the issuer's reported emissions within the "GHG emissions metrics" provision of the proposal.

CPCPP supports a requirement for registrants to disclose the amount of carbon reduction represented by offsets or renewable energy credits (RECs). The nature of the offsets or RECS could be helpful, as the confidence in the quantity may vary among types of offsets.

CPCPP believes the proposal could be strengthened by clarifying and adding definitions of key terms and adding a discussion of the risks to investors when companies delay action and rely too heavily on offsetting with carbon credits to reduce emissions. The proposal can also be strengthened by requiring companies to additionally distinguish between carbon offsets that are generated from (1) carbon dioxide removals and (2) emission reduction activities. The following definitions are provided for the SEC's consideration:

- A "carbon credit" represents one metric tonne of greenhouse gas (GHG) emissions reduced or carbon dioxide removed from the atmosphere. The term "carbon credit" describes the verified GHG emission reductions or removals generated, traded, and retired.
- The term "offset" describes the act of financing other climate mitigation to balance out a company's GHG emissions footprint. Carbon credits must be retired to offset emissions.
- "Carbon projects" generate carbon credits by (1) reducing emissions or (2) removing carbon dioxide beyond business as usual.
- An "emission reduction" occurs when emissions are avoided or reduced.
- A "carbon removal" occurs when carbon dioxide is drawn out of the atmosphere and sequestered.

[16] A criteria for a company's target(s) to be recognized by the SBTi is: "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" as pert the SBTi Criteria and Recommendations (Version 5.0, October 2021) https://sciencebasedtargets.org/resources/files/SBTi-criteria.pdf

Assurance

CPCPP supports the SEC's provisions for requiring assurance of certain GHG emissions disclosures, and for the phasing in of reasonable assurance over time, because assurance is needed to ensure that we receive accurate, relevant and consistent information about emissions, which is currently very difficult to obtain.

Financial Reporting

CPCPP supports the inclusion of some climate-related information in the financial statements because climate-related impacts or risks can materially affect a company's financial position and operations. This also promotes consistency in information across a company's reporting.

Materiality

CPCPP supports the SEC's proposed provisions discussing materiality, specifically (1) the requirement to "[d]escribe any climate-related risks reasonably likely to have a material impact on the registrant, including on its business or consolidated financial statements, which may manifest over the short, medium, and long term . . . ", and (2) the materiality provisions in the "Strategy, business model, and outlook" section of the proposal. CPCPP supports these provisions because they may prevent unnecessary disclosures while ensuring investors receive information about significant risks, but we recognize the risk that some issuers' determinations of materiality may overlook significant climate risks.

Respectfully submitted:

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