SUBMISSION TO SEC RE: THE ENHANCEMENT AND STANDARDIZATION OF CLIMATE-RELATED DISCLOSURES FOR INVESTORS RIN: 3235-AM87

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The following Canadian-based, global investors, asset managers and owners are pleased to submit our comments in support of the U.S. Securities and Exchange Commission's (SEC)'s proposed enhancement and standardization of climate-related disclosures for investors. Representing $1.6 trillion Canadian dollars in assets under management we are committed to creating more sustainable and inclusive growth by integrating climate change and other environmental, social and governance (ESG) factors into our strategies and investment decisions.

We support the SEC's proposal to improve and standardize climate-related disclosures for investors.

Doing this will unlock opportunities and mitigate risks, supporting our mandates to deliver long-term risk adjusted returns. To deliver on our mandates we need the disclosure of consistent, comparable, and reliable information on climate change from companies.

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A. Overview of the Climate-Related Disclosure Framework (Questions 1-7)

Proposed TCFD- Based Disclosure Framework

We support the disclosure of consistent, comparable, and reliable information on climate and therefore support disclosures aligned with the Task Force on Climate-related Disclosure (TCFD) recommendations and the Sustainability Accounting Standards Board (SASB) Standards. From a user's perspective, improving the comparability of climate-related financial information is a high priority. Aligning SEC rules with the TCFD recommendations, SASB standards and the proposed requirements in the International Financial Reporting Standards (IFRS) Climate-related Disclosure draft will help to reduce the burden on issuers and increase the consistency and comparability of climate disclosure for users.

Location of Disclosure:

We believe it is important for climate-related disclosures to be centrally located in one document and have appropriate board and management oversight. The preferred disclosure location is within the 10-k filing. This would provide comfort that there is adequate governance and board oversight, as part of a registrant's regular business reporting, supporting the reliability of the disclosures. Consistent and centralized disclosure locations simplify the consumption of disclosures by avoiding searches of multiple locations to find climate-related disclosures.

Use of disclosures:

As investors, we use climate disclosures in different ways and for multiple purposes. For example, we use greenhouse gas (GHG) emissions data from the companies we invest in to measure our portfolio carbon footprint annually. We use climate-related disclosure to make investment decisions based on fundamental analysis that includes climate change, and to inform our proxy voting decisions. We believe that GHG emissions disclosure is the minimum required disclosure for how organizations are managing climate risks and opportunities, allowing investors to make informed investment decisions. Increasingly, we also focus on disclosure of net-zero transition plans and interim targets.

B. Disclosure of Climate-Related Risks (Questions 8-18)

We support disclosure of both transition and physical climate-related risks and opportunities that are likely to a have a material impact on a business or its consolidated financial statements over the short, medium and/or long-term. Geographic location information should be focused on risks and opportunities that are material to business strategy and continuity. We consider the SASB standards an important and informative resource, and strongly support a sector-based approach to materiality.

C. Disclosure Regarding Climate-Related Impacts on Strategy, Business Model, and Outlook (Questions 19-33)

We support the requirement to disclose the actual and potential impacts of its material climate-related risks on a company's strategy, business model, and outlook. We also support the investor-focused definition of materiality and the SEC's proposal to discuss its assessment of material climate risks. Understanding the process a company uses to determine material risks is a critical piece of information for investors and allows us to evaluate the merits of the approach and compare to peers or across industries.

Carbon Offsets:

We support the SEC's inclusion of carbon offset disclosures within the "Strategy, business model, and outlook" and "Targets and goals" provisions of its proposal. We also support excluding the impact of any purchased or generated offsets (i.e., presented on a "gross" basis) from the issuer's reported emissions within the "GHG emissions metrics" provision of the proposal.

We recommend expanding the proposed definition for carbon offsets to clearly delineate between emission reduction offsets and carbon removal offsets. Registrants should be required to disclose that they have used offsets that are verifiable and correctly accounted for, and have a low risk of non-additionality, reversal, and creating negative unintended consequences.[1]

Scenario Analysis:

We are supportive of the SEC's proposal to require disclosure of a registrant's scenario analysis as defined. Given the high-level nature of the SEC's definition of scenario analysis, we would be supportive of requiring more quantitative scenario analysis for sectors where climate-related risk is most relevant such as those identified by the TCFD. If disclosure is provided, it should include sufficient transparency for investors to understand the rigor behind the assumptions made.

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. This underlines the importance for companies to undertake scenario analysis, and supports the inclusion of at least one scenario that contemplates limiting warming to 1.5C with limited-to-no overshoot.

D. Governance Disclosure (Questions 34-41)

We support the SEC's proposals around disclosure of board and management oversight of climate risks within its proposal. We also support the disclosure of consistent, comparable, and reliable climate-related information aligned with the TCFD recommendations and SASB Standard.

E. Risk Management Disclosure (Questions 42-51)

[1] Consistent with the Oxford Principles for Net Zero Aligned Carbon Offsetting.

We support the SEC proposal's risk management disclosure requirements, as it provides investors with insights into how companies identify, assess and manage climate-related risks. We also agree with disclosure of how the processes are integrated into the overall risk management system and the roles of the board and management.

Transition Plans:

Climate change poses a systemic risk to both issuers and investors and creates an imperative to support the orderly transition to a low-carbon economy. Information on a companies' transition plans, including how a company intends to align to a low carbon economy and the establishment of interim targets is useful to investors. Disclosure of transition plans allows investors to verify the credibility of an organizations' commitments related to climate change, which is vital to investors' assessment of risks.

We are supportive of the SEC's required disclosure of transition plans as defined, but would recommend that disclosure of transition plans and interim targets be mandatory for the most material sectors, consistent with TCFD guidance. As part of the transition plan disclosure, we also support the disclosure of key metrics and progress towards targets, plans to mitigate or adapt to any material physical or transition risks, as well as any plans to capitalize on any identified climate-related opportunities.

The SEC should revisit their definition of transition plans in the future and consider strengthening the definition. The TCFD's definition of a transition plan notably includes the transition toward a low-carbon economy.

Forward-looking information and "safe harbors"

We note that the SEC is not proposing to introduce any new protection measures for climate-related disclosures except for those related to Scope 3 emissions.

F. Financial Statement Metrics (Questions 52-92)

Under the proposed SEC rules, registrants would be required to provide greater disclosure regarding the actual and probable financial impacts of climate risks where material. We believe these requirements support investors' need for consistent, decision useful, relevant and comparable data.

We support the SEC's effort to require that climate risks be reflected in the financial statements and therefore welcome the creation of a specific location - a note to the financial statements - where required disclosures on the financial impacts of climate risk can be placed. In particular, we welcome the requirement for disclosure of how severe weather events and other natural conditions and transition activities affect estimates and assumptions reflected in the financial statements when material. Where possible, we recommend registrants demonstrate use of robust climate data with science-based assumptions, such as those espoused by the Science Based Targets initiative[2].

[2] The Science Based Targets initiative (SBTi) – defines and promotes best practices in emissions reductions and net-zero targets in line with climate science.

While we encourage and expect disclosure of material climate-related capital expenditures and intended expenditures, as this information is useful for investors to assess their transition readiness and ability to mitigate climate related risks, we believe it may be too early to require prescriptive, standardized, auditable climate-related capex disclosure. We believe that investors will increasingly have questions around this topic. We encourage the SEC to consider issuing guidance regarding the appropriate level of disclosure regarding climate-related planned or actual expenditures.

We also believe sufficient flexibility should be provided for estimating uncertainty around climate-related risks so that companies are not overly reluctant to disclose their analysis or submit their findings for attestation. As such, we support larger issuers having to supply more stringent disclosures on estimates and assumptions to start out, as smaller companies may not have adequate resources and expertise to undertake this exercise.

Lastly, we recommend that the materiality of financial impact disclosures be assessed by management and validated by their external auditor, as opposed to a rules-based approach using a defined materiality of 1.0% across all cases. This allows for greater flexibility and the application of professional judgement when determining the extent of disclosures. This avoids disclosure of potentially immaterial items and considers the usefulness of disclosures to external users and stakeholders and is consistent with how materiality is established for financial and other reporting subject to audit.

G. GHG Emissions Metrics Disclosure (Questions 93-134)

As investors seeking consistent, comparable and decision-useful climate information, we strongly support the SEC's efforts to align issuers around a consistent GHG reporting framework. We use GHG information to make evidence-based investment decisions in the context of climate change risks and opportunities. This includes calculating the marginal carbon footprint of transactions, evaluating the credibility of issuer climate transition plans, and tracking GHG progress across asset classes and our portfolios.

We strongly support the use of the GHG Protocol definitions for Scope 1, Scope 2, and Scope 3 emissions that are already widely adopted in carbon footprinting practices. We strongly support the notion that issuers should disclose their methodology for calculating the GHG emissions, including any emission factors used and the source of the emission factors. Given existing gaps in knowledge and information on GHG emissions, we agree that companies should retain the flexibility to use proxies and estimates in their emissions disclosures so long as the assumptions regarding their use are clearly stated.

We support the inclusion of all non-CO2 gasses (e.g., CH4, N2O, HFCs, etc.) consistent with the UN Framework Convention on Climate Change and the GHG Protocol, and GHGs to be reported in disaggregate and in total. Moreover, we support the conversion of these values to carbon dioxide equivalent (CO2e).

Value chain carbon exposure (Scope 3 emissions) may materially impact an issuer's financial performance. Some issuers can take steps to measure and manage Scope 3 exposure, despite these emissions not being directly within their care and control. As institutional investors, we take note of recent guidance from TCFD, the Science-Based Targets Initiative, and other credible institutions regarding Scope 3 disclosure methodologies and materiality definitions. We acknowledge the data challenges associated with both calculating and aggregating Scope 3 emissions (e.g. accessing supplier data, boundary setting, etc.) but support moving forward with disclosure when material information will improve data quality for all market participants.

We support the requirement that registrants disclose separately their total Scope 3 emissions for the fiscal year if those emissions are material, or if it has set a GHG emissions reduction target or goal that includes its Scope 3 emissions.

Purchased or generated offsets should be reported separately when disclosing Scope 1, 2 and 3 emissions. Including offsets within these values (i.e., netting) would make data less comparable across issuers.

We agree the calculation of a registrant's Scope 1, Scope 2, and Scope 3 where material, emissions should be as at their fiscal year end, as proposed. This allows for normalization against financial metrics as disclosed in the same annual report, to determine carbon intensity.

H. Attestation of Scope 1 and Scope 2 Emissions Disclosure (Questions 135-167)

We support attestation for Scope 1 and 2 emissions, but do not feel that is necessary for scope 3 emissions at this time. Attestation requirements for accelerated and large accelerated filers are appropriate as proposed. Beginning with limited assurance and transitioning to reasonable assurance over time makes sense and the transition periods proposed are reasonable.

We are broadly supportive of the rest of the recommendations in this section.

I. Targets and Goals Disclosure (Questions 168-174)

We broadly agree with the recommendations in section I and are supportive of the proposal. We believe that sector-based relevancy and materiality are important considerations throughout.

J. Registrants Subject to the Climate-Related Disclosure Rules and Affected Forms (Questions 175-189)

By aligning and harmonizing the SEC's standards with other standards, a global baseline of climate-related disclosure expectations will emerge which should reduce registrant compliance costs and provide investors with the consistent climate information they need. We support the extension of alternative reporting to all registrants provided that their disclosure meets the SEC's minimum requirements.

K. Structured Data Requirement (Questions 190-193)

In response to questions 190 through 193 related to data requirements, we believe that from a user's perspective, tagging enhances utility, and is therefore recommended.

L. Treatment for Purposes of Securities Act and Exchange Act (Questions 194-196)

In response to questions 194 through 196 related to the treatment of climate-related disclosures; we support the proposal to treat climate-related disclosures as filed.

M. Compliance Date (Questions 197-201)

In response to questions 197 through 201 related to timing and compliance dates; we encourage the timely implementation of the proposed climate-related disclosures. In 2021, the TCFD published its recommendation for all organizations to disclose Scope 3 GHG emissions, where material, as such this is not a new direction of travel for the market. We support the proposed timelines, as presented in the proposed compliance dates table in Section M of the proposed rule.