Climate Disclosure Standards Board

CDSB response to Capital Markets Modernization Taskforce Consultation Report

The Climate Disclosure Standards Board (CDSB) would like to thank the Capital Markets Modernization Taskforce (henceforth the Taskforce) for the opportunity to provide comments on its Consultation report[1].

The Climate Disclosure Standards Board (CDSB) works to provide decision-useful environmental information to markets via mainstream corporate reports. Our mission is to create the enabling conditions for material climate change and natural capital information to be integrated into mainstream reporting.

CDSB is an international consortium of business and environmental NGOs. We are committed to advancing and aligning the global mainstream corporate reporting model to equate natural capital with financial capital.

We do this by offering companies a framework for reporting environmental information with the same rigour as financial information. In turn this helps them to provide investors with decision-useful environmental information via the mainstream corporate report, enhancing the efficient allocation of capital. Regulators also benefit from compliance-ready materials.

Recognising that information about natural capital and financial capital is equally essential for an understanding of corporate performance, our work builds the trust and transparency needed to foster resilient capital markets. Collectively, we aim to contribute to more sustainable economic, social and environmental systems.

The CDSB Framework[2] is used by large listed companies globally and is referenced in government guidance to reporting regulation in the EU Commission Guidelines on Non-Financial Reporting, the UK Companies Act 2006, and stock exchange guidance in London, Australia, Singapore, Egypt, Santiago de Chile and elsewhere. CDSB has also contributed to the work of the UN Sustainable Stock Exchanges Initiative through its working groups on disclosure, green finance and financial regulators. CDSB also hosts the TCFD Knowledge Hub[3] on behalf of the Task Force on Climate-related Financial Disclosures (TCFD), which helps report preparers to find the resources they need to understand and implement the TCFD recommendations.

Our comments relating to specific discussion points and questions are provided in the Appendix below. Please do not hesitate to contact us for further information.

With kind regards,

Michael Zimonyi
Policy & External Affairs Director
Climate Disclosure Standards Board

1 Capital Markets Modernization Taskforce (2020) Capital Markets Modernization Taskforce Consultation Report. [PDF]. Available from: https://www.ontario.ca/document/capital-markets-modernization-taskforce-consultation-report-july-2020
2 Climate Disclosure Standards Board (2018) CDSB Framework for reporting environmental and climate change information. [PDF]. Available from: http://cdsb.net/Framework
3 TCFD & Climate Disclosure Standards Board (2020) TCFD Knowledge Hub. [Online]. Available from: https://www.tcfdhub.org/

T: +44 (0) 203 818 3939
www.cdsb.net
4th Floor, Plantation Place South
60 Great Tower Street
London EC3R 5AD

Appendix: Responses to specific questions

Expand the mandate of the OSC to include fostering capital formation and competition in the markets

How would incorporating capital formation and fostering competitive capital markets into the OSC's mandate help spur economic growth in Ontario? Would such changes impact the OSC's remaining mandates (i.e., fostering fair and efficient capital markets, protecting investors and reducing systemic risk)?

In the incorporation of these matters into the OSC's mandate, it is imperative to ensure that "capital information" is unequivocally understood to mean all forms of capital as defined by the International Integrated Reporting Framework[4], not just financial. Natural, social, and other forms of capital can and often do have an impact on a business' future ability to create value. Reporting on these matters is therefore essential to the OSC's current mandate[5] but not understood as such. Clarification of these matters would allow the OSC to deliver its mandate more fully.

Transitioning towards an access equals delivery model of dissemination of information in the capital markets, and digitization of capital markets

Digitalisation of sustainability information would have the following benefits:

- Ensuring consistency and comparability of both financial and non-financial information which shall be treated the same;
- Increasing the granularity of information disclosed
- Reduction of mechanical data entry;
- Improving transparency for investors and the public; and
- encourages more data analysis & comparison against external data.

The eXtensible Business Reporting Language (XBRL) is a digital reporting language that is widely used across various jurisdictions (including the SEC's EDGAR, the UK's corporate tax filing system and various corporate reporting systems in Australia to name a few example) to digitally report corporate information. It allows investors and other stakeholders to effectively share and analyse information, improving the availability, quality and the usability of corporate reporting data.

We note here however that it is crucial to also ensure that financial and ESG information is reported in the same format and ideally in the same file to ensure connectivity and ease of access to all material information. As such, it is important to consider digitisation of both financial and ESG information at the same time. The best possible place to do so seems to be in connection with expediting the SEDAR+ project. As digitisation has the same benefit to financial and ESG information, our comments relate to both in this section.

Ultimately, the transposition of climate change-related information into a standard electronic format will facilitate the exchange of both financial and climate related information that are material for corporate reporting. The objective is that the data standard will establish the necessary links between financial business data and reporting and the new needs of information for a low carbon economy. We believe that such a standard can promote the efficient use and exchange of information across the investment chain.

Digital reporting can also help in resolving the different information needs of various users. For example, information can be tagged with more detail on whether it is deemed financially or otherwise material, thereby allowing readers to view information that satisfies either element of double materiality or only financial materiality.

In 2012, CDSB and CDP have jointly developed an XBRL-based climate change reporting taxonomy, which comprises of both the CDP questionnaire and the CDSB Framework (more information at https://cdsb.net/xbrl). We would like to extend an offer to share our experiences and support, should this be helpful in this process.

[4] International Integrated Reporting Council (2013) The International <IR> Framework. [PDF]. Available from: https://integratedreporting.org/resource/international-ir-framework/

[5] The OSC's current mandate is "To provide protection to investors from unfair, improper or fraudulent practices, to foster fair and efficient capital markets and confidence in capital markets, and to contribute to the stability of the financial system and the reduction of systemic risk."

T: +44 (0) 203 818 3939
www.cdsb.net
4th Floor, Plantation Place South
60 Great Tower Street
London EC3R 5AD

Require enhanced disclosure of material environmental, social and governance (ESG) information, including forward-looking information, for TSX issuers

In addition to what was outlined in the Consultation Report, we would like to bring the attention of the Taskforce that, alongside the high-level recommendations of the TCFD recommendations and the industry-specific SASB Standards aid companies in preparing WHAT to disclose, the *CDSB Framework for reporting environmental and climate change information*[6] can provide useful guidance to TSX issuers in understanding HOW to disclose decision-useful material information through its Principles:

P1 Environmental information shall be prepared applying the principles of relevance and materiality
P2 Disclosures shall be faithfully represented
P3 Disclosures shall be connected with other information in the mainstream report
P4 Disclosures shall be consistent and comparable
P5 Disclosures shall be clear and understandable
P6 Disclosures shall be verifiable
P7 Disclosures shall be forward looking

The CDSB Framework, along with other key ESG reporting standards and Frameworks, was used as a basis of the TCFD recommendations and is used by businesses in Canada and elsewhere globally to support them with additional detail on TCFD-aligned reporting, and, given that the Framework covers not juts climate- but all of natural capital-related reporting, to apply the approach of the TCFD to reporting on other environmental matters that are material to their enterprise value creation.

Incorporating the CDSB Framework in the filing requirements of the OSC would therefore support report preparers with additional context to prepare consistent, comparable and decision-useful ESG disclosures.

Should there be a phased approach to implementation, including a comply- or-explain model?
Is there a need for a short term "safe haven" regarding ESG disclosures?

A comply-or-explain model may alleviate some concerns, however the threshold to determining what information should or should not be described should be the materiality of the information to the reader of AIFs. With this in mind, we found the conditions proposed by the Government of New Zealand for its plans for mandatory TCFD recommendations pragmatic, which were inspired by the recommendations of the Canadian Expert Panel on Sustainable Finance[7]:

"C. When it would be acceptable to explain
103. 'Comply-or-explain' is used in corporate governance regulation and financial supervision. It is based on the idea that one size does not fit all. Rather than imposing binding laws, regulators set out a recommended code, which entities may either comply with, or if they do not comply, explain why not. This provides regulated entities with the opportunity to use alternative disclosure approaches or not comply with some or all of the code, subject to explaining why. This approach can lower implementation costs and allow entities to adapt their reporting to new trends and developments.[91]

104. This rationale does not apply to the TCFD framework, because it is principles-based and flexible, and there are no reasons to depart from it. In addition:

104.1 permitting the use of more than one reporting framework would make it much more difficult for users to compare disclosures across entities
104.2 permitting departures from TCFD would increase the risk that entities will give perfunctory explanations for non-compliance.

105. We propose that:

105.1 As recommended by the Canadian Expert Panel on Sustainable Finance,[92] *non-disclosure would only be allowed if the entity analyses and reports that they see themselves as not being materially affected by climate change, with an explanation as to why.*
105.2 In year one, it would also be permissible to not provide a full set of TCFD disclosures, subject to explaining why the disclosures are incomplete. We are proposing this because aspects of TCFD are challenging and some entities may not be able to 'gear up' in time to produce a full set of disclosures in the first year."

[6] Climate Disclosure Standards Board (2018) CDSB Framework for reporting environmental and climate change information. [PDF]. Available from: http://cdsb.net/Framework
[7] New Zealand Ministry for the Environment (2019) Climate-related financial disclosures: discussion document. [PDF]. Available at: https://www.mfe.govt.nz/publications/climate-change/climate-related-financial-disclosures-discussion-document

T: +44 (0) 203 818 3939
www.cdsb.net
4th Floor, Plantation Place South
60 Great Tower Street
London EC3R 5AD

A separate “safe haven” for ESG disclosures is actually counter-productive, provided there is the forward-looking information safe harbour in existing law. While it may have a small benefit in easing minds and therefore encourage uptake, but it is contrary to the point of making them mandatory. Companies, their directors, auditors and lawyers must understand how to comply with the law and misplaced concerns are may not be a sufficient reason to decrease the effectiveness of these requirements. A separate safe harbour reinforces the notion that ESG disclosures generally and TCFD disclosures specifically are somehow different to disclosure of other material risks and material financial information, a concept that would be contrary to the market-leading thinking of Canada in 2010 by *CSA Staff Notice 51-333 Environmental Reporting Guidance*[8]. Mandatory disclosure regimes generally require disclosure of material information relevant to a company's *prospects*, which is inherently forward-looking in nature. Many specific disclosure requirements, such as the UK's 'Viability Statement' are already based on forward-looking scenario analysis. The TCFD might differ in emphasis on forward-looking scenario analysis, but it is not a category distinction.

Should ESG disclosures be subject to the forward-looking information requirements set out in National Instrument 51-102 Continuous Disclosure Obligations, or what, if any, different considerations should apply?

Yes. As outlined in our response to the Canadian Expert Panel on Sustainable Finance, we recommend that *National Instrument 51-102*, as well as *National Instrument 58-101 Disclosure of Corporate Governance Practices*[9] are revised to incorporate the TCFD’s recommended disclosures.

These mandatory instruments should be incorporate the leading thinking on nature-related financial risk disclosure demonstrated by the CSA already in 2010 in *CSA Staff Notice 51-333 Environmental Reporting Guidance*[10].

[8] Canadian Securities Administrators (2010) CSA Staff Notice 51-333 – Environmental Reporting Guidance. [PDF]. Available at: http://www.osc.gov.on.ca/documents/en/Securities-Category5/csa_20101027_51-333_environmental-reporting.pdf

[9] British Columbia Securities Commission (2016) National Instrument 58-101 Disclosure of Corporate Governance Practices. [PDF]. Available at: https://www.bcsc.bc.ca/Securities_Law/Policies/Policy5/PDF/58-101__NI___December_31__2016/

[10] Canadian Securities Administrators (2010) CSA Staff Notice 51-333 – Environmental Reporting Guidance. [PDF]. Available at: http://www.osc.gov.on.ca/documents/en/Securities-Category5/csa_20101027_51-333_environmental-reporting.pdf

T: +44 (0) 203 818 3939
www.cdsb.net

4th Floor, Plantation Place South
60 Great Tower Street
London EC3R 5AD