

April 5, 2018

Backgrounder: CSA Staff Notice 51-354 Report on Climate change-related Disclosure Project

Project overview

On March 21, 2017, the Canadian Securities Administrators (**CSA**) announced a project to review the disclosure by reporting issuers (**issuers**) of risks and financial impacts associated with climate change. The objectives of the project were:

- to assess whether Canadian securities legislation and related guidance are sufficient for issuers to determine what climate change-related disclosures they should provide,
- to better understand what climate change-related information investors need to make informed voting and investment decisions, and
- to see whether or not issuers are providing appropriate disclosures in this regard.

The CSA is publishing CSA Staff Notice 51-354 *Report on Climate change-related Disclosure Project* to report on the work performed in connection with the project and the key themes identified, and to outline the CSA's plans for future work in this area.

Research and consultation

The CSA completed an extensive and multifaceted review to gather information on the state of climate change-related disclosure in Canada. This work included:

- **Disclosure review** – Focused review of mandatory and voluntary climate change-related disclosure of 78 large issuers from the S&P/TSX composite Index.
- **Online survey** – Review of responses to a voluntary anonymous online survey sent to all TSX-listed issuers regarding current climate change-related disclosure practices (97 issuers responded to survey).
- **Consultations** – Fifty (50) consultations, including in-person focus groups with reporting issuers, investors, advisors and other users of disclosure (“users” refers to investors, investor advocates, experts, academics, crediting rating agencies and analysts).
- **Research** – Review of climate change-related disclosure requirements in selected jurisdictions outside of Canada, as well as prominent voluntary disclosure frameworks.

Key themes

A number of key themes emerged from the work completed for the project. These include, among others:

Materiality – As a general rule, materiality is the determining factor in considering whether information must be disclosed to investors. The project revealed a wide range of perspectives on the materiality of climate change-related risks and opportunities. Most of the users consulted considered climate change-related risks to be a conventional business issue affecting issuers in a wide range of industries, and not solely a sustainability or environmental issue. In their view, the significance of these risks is not

adequately reflected in the continuous disclosure documents of reporting issuers. Most issuers consulted acknowledged the materiality of some climate change-related information, such as risk factors and regulatory considerations, while noting that other climate change-related information is either not material, or is so uncertain or remote that its ultimate materiality and financial impact cannot be assessed or quantified.

Current disclosure practices – Our disclosure review did not result in any re-filings, restatements or other corrective actions being requested. However, there is variation in disclosure practices and room for improvement in the disclosure of several issuers.

Dissatisfaction with state of disclosure – Substantially all users consulted were dissatisfied with the state of climate change-related disclosure and believe that improvements are needed. Some users suggested that current disclosure requirements, supplemented by additional guidance and education, may be adequate, while others maintained that new disclosure requirements should be imposed. Additionally, substantially all users consulted believe that issuers in many industries will be affected by climate change-related risks and should provide disclosure regarding their governance and oversight of climate change-related risks. Users' views differed on whether issuers should be required to disclose greenhouse gas emissions and/or scenario analyses in their regulatory filings.

Concerns about mandatory disclosure requirements – Many issuers identified concerns about mandatory disclosure requirements in relation to climate change. Issuers expressed concerns about regulatory burden, and also noted that some of the demand for climate change-related information is driven by considerations other than investment considerations, and therefore may not be aligned with the interests of shareholders. Issuers also expressed concern that mandatory reporting could result in a disproportionate emphasis on climate change-related risks relative to other equally or more significant risks. Issuers indicated a strong preference for the current disclosure requirements, where information determined to be material for purposes of securities law in Canada must be disclosed in continuous disclosure filings, while additional non-material information may be generally disclosed on a voluntary basis.

Next steps

Based on the findings of the project, the CSA intends to undertake work in the following three areas:

- **Guidance and education** – The CSA intends to develop new guidance and consider initiatives to educate Canadian reporting issuers on the disclosure of climate change-related risks, opportunities and financial impacts.
- **Focus on risk governance and oversight** – The CSA intends to consider new disclosure requirements in respect of issuers' governance processes relating to material risks and opportunities and how issuers oversee the identification, assessment and management of material risks. This would include, for example, emerging or evolving risks and opportunities arising from climate change, potential barriers to free trade, cyber security and disruptive technologies.
- **Monitoring** – CSA staff will continue to monitor the ongoing development of climate change-related disclosure practices, and evaluate the disclosure of issuers to assess whether their disclosure continues to evolve and improve. This would include monitoring developments in reporting frameworks, evolving disclosure practices and users' need for additional types of climate change-related disclosure, including whether disclosure of certain categories of greenhouse gas emissions are warranted in the future.