APRIL 6, 2018

Canadian Securities Regulators Report on Climate Disclosure

Authors: Sarah V. Powell, Alexandria J. Pike, Marie-Claude Bellemare and Mindy B. Gilbert

Following on the heels of the recommendations of the Financial Stability Board's Task Force on Climate-Related Disclosures (Task Force), the Canadian Securities Administrators (CSA) has published its Report on Climate change-related Disclosure Project. The CSA reviewed mandatory and voluntary climate disclosure of 78 issuers from the S&P/TSX Composite Index. Fifty-six percent of these issuers provided specific climate disclosure in their MD&A and/or AIF, with the remaining issuers providing either boilerplate disclosure or no disclosure at all. If disclosure on climate risk was not provided, the principal reason issuers gave was that such disclosure was not material from a Canadian securities law perspective. However, many issuers confirmed that uncertainty with respect to the timing and measurement of climate risk presented a particular challenge in assessing materiality.

The CSA also found a broad consensus among investors and other stakeholders that were consulted that climate disclosure was largely boilerplate, vague or viewed as incomplete. A number of investors also found that climate disclosure lacked clarity and consistency, which limited their ability to compare disclosure among issuers. Many investors also supported the Task Force's recommendations regarding specific disclosure on the board's oversight of climate risk; management's role of assessing and managing climate risk; and the issuer's process of assessing and managing climate risk. Most of the investors consulted viewed climate change–related risks to be a conventional business issue rather than a sustainability or environmental issue. One of the key challenges identified by investors is determining whether an issuer has conducted an appropriate materiality assessment with respect to climate risks.

A number of the issuers consulted noted that their investors are not asking for climate change–related information. There was also no consensus among the issuers as to whether there should be a single prescribed "one size fits all" framework for climate change–related disclosure. Concerns raised by issuers regarding a mandatory disclosure framework included potential increases in the cost of compliance and additional regulatory burden for issuers, which may be disproportionate to benefits realized by investors.

Based on the CSA's review, it intends over the near term to do the following:

- develop guidance and educational initiatives for issuers with respect to the business risks and opportunities and potential financial impacts of climate change;
- continue to monitor the development of international best practices in the area of mandatory and voluntary climate change–related disclosure; and
- *consider* new disclosure requirements regarding governance and risk management practices respecting climate change.

Although the CSA advised that there was no assurance that new rules would ultimately be adopted, we expect that institutional investors and other stakeholders will continue to press for more meaningful and consistent climate disclosure in Canada including, at a minimum, mandatory disclosure of issuers' direct and indirect greenhouse gas emissions consistent with emerging international best disclosure practices.

Davies will continue to follow developments regarding climate disclosure reporting requirements and best practices.

Key Contacts: Sarah V. Powell, Alexandria J. Pike, Robert S. Murphy and Marie-Claude Bellemare