Pension Investment
Association of Canada

Association canadienne des
gestionnaires de caisses de retraite

February 10, 2017

Mr. Michael Bloomberg
Chair
Task Force on Climate-Related Financial Disclosures
Financial Stability Board
Via email: tcfd2017@uk.pwc.com
info@fsb-tcfd.org

Subject: **Comments with regard to the public consultation on Draft Recommendations from the Financial Stability Board's Task Force on Climate-Related Financial Disclosures released on December 14, 2016**

Dear Mr. Bloomberg,

The Pension Investment Association of Canada (PIAC) is pleased to provide these comments on the Draft Recommendations from the Financial Stability Board's Task Force on Climate-Related Financial Disclosures (TCFD).

PIAC has been the national voice for Canadian pension funds since 1977. Senior investment professionals employed by PIAC's member funds are responsible for the oversight and management of over $1.5 trillion in assets on behalf of millions of Canadians. PIAC's mission is to promote sound investment practices and good governance for the benefit of pension plan sponsors and beneficiaries. PIAC's positions on public policy reflect the fiduciary framework in which member funds operate and its commitment to work in the best interests of plan members.

We support this important initiative which is a concrete step towards effective improvement in company disclosures related to climate change. We also commend the TCFD for developing specific measures across various economic sectors. Further, PIAC supports enhanced climate-related company disclosures and encourage continued discussion with industry associations and their constituents.

PIAC member funds are long-term institutional investors in global markets. Disclosure of reliable, relevant, sufficient and comparable information is fundamental to investment analysis and decision-making. An investor's first climate change consideration is how to

integrate potential climate change impacts into financial analysis to identify relevant risks and opportunities across its portfolios, and to conduct due diligence of potential investments. This is critical to discharging our fiduciary responsibilities.

As stated in the TCFD Phase 1 Report, climate-related company disclosure is sporadic across industry sectors, and disclosure, where it exists, is incomplete or fragmented. As such, we believe it is important to promote disclosure and provide guidance to improve the quality, comparability and robustness of the data disclosed.

We commend the TCFD for emphasizing company disclosure for governance of climate change issues, strategic implementation of related performance measures and climate risk management metrics. Although carbon footprinting is relevant to risk analysis, it may be premature to expect investors to publicly disclose this information until the underlying data is sufficiently robust to increase investor confidence, featuring a level of external verification across sectors.

When PIAC members invest in the financial sector (banks, funds, etc.), the focus is generally not on a company's carbon footprint, but rather on a) its processes to identify, mitigate and manage climate-related financial risks and b) the level of transparency regarding emissions disclosures within portfolios.

We are concerned with the disclosure recommendations applying to institutional investors, such as pension funds, at this stage. Disclosure by institutional investors' depends entirely on the quality of disclosure of the entities in which we invest and the capabilities of those entities' in-house environmental expertise.

We agree with the TCFD recommendation to adopt a phased approach to disclosure expectations. Disclosure rates and quality from companies should improve if companies are offered clear guidance, including examples, and tools to measure and disclose their Scope 1 and 2 carbon emissions and intensity, conduct scenario analysis and provide assurance for financial filings.

We generally support integrated reporting and the inclusion of climate risk disclosures in the financial filings, which may demonstrate direct linkages to financial risk. On this aspect, we recognize a need to increase knowledge and understanding of users and assurance providers about climate-related disclosures, as well as develop generally-accepted accounting disclosure standards. Related to this, we commend the adoption of Principles for Effective Disclosures while noting they cannot all be complied with now. In the short term, climate-related disclosures may not be complete, consistent over time, reliable, verifiable or comparable.

We also highlight that these recommendations and their implementation may be a quite challenging for small organizations, including many PIAC members.

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Comments on specific aspects of the recommendations

<u>All Sector Guidance</u>
While we commend the TCFD on their work to date, greater guidance on the governance of climate change risks could be provided. Guidance is given regarding Board responsibilities for processes, oversight and monitoring of climate change issues. It is important to have a useful and clear framework for companies to disclose: (1) governance of disclosure; (2) strategy to manage climate change risk; (3) risk protocols; (4) metrics (and methodologies used). It may be helpful to add recommendations regarding desired skills and expertise for Board members and how boards may stay educated on emerging climate related issues.

Forward-looking information requirements should be sufficiently defined to mitigate the risk of liability.

The proposed generally accepted industry-specific GHG efficiency ratios in the metrics and targets section are welcomed. This, among other things, is a measure of carbon intensity of assets in certain areas (for example, in t CO_2/kWh for the power industry). This is excellent because it encourages good discussion on the carbon quality of a sub-portfolio and allows like-for-like comparisons to be made, while gross emissions do not allow for useful comparisons. The intensity-based measure emphasizes the proportion of renewable energy and companies in transition which is useful to institutional investors.

<u>Supplemental Guidance</u>
The All Sector Guidance in the report seems written primarily for operating companies. Asset owners lack clarity regarding how the guidance should be applied for the investment organization itself.

Concerning asset owners, the supplemental guidance prescribes emissions be normalized by monetary unit. This attempts to provide a measure of the portfolio's carbon intensity, which is not meaningful for two reasons: (1) market volatility, including currency fluctuations influence the portfolio's carbon intensity and, as such, have no bearing on carbon risk and no impact on global GHGs, and (2) this figure, based on absolute emissions, is directly related to the composition of the portfolio but provides no information on the "carbon quality" of companies in the portfolio or on the risk. We prefer the approach adopted for banks in the metrics and targets section which requires disclosure of metrics used to assess the impact of physical and transition climate-related risks on their activities.

Further, we note that the specific disclosure instructions intended for high carbon generating sectors (electricity, oil and gas, transportation, materials and building, agriculture, food and forest products) are detailed and appear to be well thought-out. They require disclosure by predetermined production unit (e.g. t CO_2/kWh for electricity), which should greatly facilitate the comparative analysis of companies in these sectors, and a better appreciation of current and prospective risks. It is, however, recommended that given a change of metrics by the companies, a re-evaluation be done for the past three years based on these new metrics.

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Scenario Analysis

This section of the recommendations is highly conceptual, based on climate scenarios absent the complex situation of regulatory and macroeconomic contexts, especially for companies operating in different regions and countries. It can be difficult to consider and apply the multiple regulatory frameworks and macroeconomic contexts in such scenarios.

It will be challenging to rely on an organization's scenario tests as they are unlikely to develop and disclose negative scenarios. Also, since there is little guidance on scenarios, it is difficult to draw comparisons across companies. It could be useful to establish a set of standard parameters or scenarios that would at least allow for a relative comparison to be made across companies in the same sector.

As well, existing guidance on scenarios (such as the IPCC) is difficult to apply at the company or portfolio level. As an intermediate step, we recommend working groups be established with an appropriate mix of expertise to develop methodologies to apply these macro scenarios.

Guidance on assumptions used to develop scenarios should also be provided. Investors want to assess the reasonableness of assumptions. Moreover, companies should be able to explain and defend their assumptions.

GHG Emissions

As mentioned, we believe it may be premature to expect the financial sector to publicly disclose their carbon footprint now. Alternatively, carbon exposure by sector would be a more accurate measure initially. We also note that disclosing Scope 1 and 2 GHG emissions does not directly reflect the benefits of green investments in an investor's portfolio, which is important for understanding the real impact of climate change effects on the planet. For example, investments in technology companies that generate emissions in their production process but ultimately reduce emissions from the use of its products.

We also believe that disclosure should be limited to Scopes 1 and 2, given that Scope 3 emission data is not reliable and could result in double counting.

Comparing across companies may be more useful than portfolio level disclosures. It would allow us to pinpoint areas where additional scrutiny is required, for example, if information is lost in aggregation. Comparing a portfolio's total emissions against another portfolio or benchmark will, among other things, bring up important methodological issues.

For investment organizations, greater implementation guidance is needed given the complexity and challenge involved in defining boundaries (economic versus direct exposure, i.e. derivative exposures, credit, indirect income sources, such as royalties). If the systemic risk is a sudden loss in value of all high emitting investments, derivative exposure would be similarly impacted.

The language could be strengthened around the limitations of GHG emissions as a risk measure. Users of the disclosures need to understand the limitations of the methodology,

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particularly as it pertains to asset managers and owners disclosing portfolio footprints and the limited information value of a portfolio GHG footprint (i.e. lack of context, failure to consider the drivers of changes in the footprint, differing implications if a provider or consumer of emission-producing products).

We trust our comments have been helpful. We thank you for your attention to our letter and would be pleased to discuss this matter further with you or answer any questions you may have. Please do not hesitate to contact Katharine Preston, Chair of the Investor Stewardship Committee (1-416-681-2944 or kpreston@optrust.com), for additional information.

Yours sincerely,

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Chair

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