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Canadian Securities Administrators' risk disclosure review: Greenpeace Canada's submission

Executive Summary

The Canadian Securities Administrators (“**CSA**”) recently announced a project to review the disclosure of risks and financial impacts associated with climate change. Through consultation with investors and reporting issuers, as well as other means, the project intends to gather information on the current state of climate change disclosure in Canada and internationally.

The disclosure practices of public companies in relation to climate-related risks and financial impacts have attracted significant international attention in recent years. Several voluntary disclosure frameworks have been proposed, culminating in the publication in December 2016 of a set of draft recommendations by the Financial Stability Board’s (“**FSB**”) Task Force on Climate-related Financial Disclosures (“**TCFD**”) ¹. However, to date, no mandatory disclosure regime has been implemented. The final TCFD recommendations were recently published in June 2017. ²

In light of the CSA’s review, Greenpeace Canada (“we, our”) submits that, as the risks of climate change are material to the market price or value of securities, disclosure of climate risks should be mandatory. These risks should be evaluated based on a scenario where warming is kept well below two degrees Celsius, with an aim of keeping temperature increase to 1.5 degrees Celsius (as committed to under the Paris climate agreement). We further submit that any disclosure regime needs to ensure that such disclosure is meaningful, substantive and reliable. Finally, the obligation to disclose these risks should be enforced. Rigorous enforcement of disclosure

¹ See Task Force on Climate-related Financial Disclosures, “*Recommendations of the Task Force on Climate-related Financial Disclosures*”, 14 December 2016, available at <https://www.fsb-tcfd.org/publications/recommendations-report/>.

² Task Force on Climate-related Financial Disclosures, “*Final Report: Recommendations of the Task Force on Climate-related Financial Disclosures*”, 29 June 2017, available at <http://www.fsb.org/2017/06/recommendations-of-the-task-force-on-climate-related-financial-disclosures-2/>

requirements is necessary in order to allow the financial impacts of climate change risks to be fully appreciated.

Why this issue matters to Greenpeace Canada?

Greenpeace was founded in Vancouver in 1971 when a small boat of volunteers and journalists sailed into Amchitka, an area north of Alaska where the US Government was conducting underground nuclear tests. Today, Greenpeace is made up of separate and independent national and regional offices that operate in more than 40 countries; Greenpeace Canada is one of them, with its primary office in Toronto. To maintain its independence, Greenpeace (including Greenpeace Canada) does not accept donations from governments or corporations but relies on contributions from individual supporters and foundation grants.

Our mission is to expose environmentally damaging activities and actors and to challenge governments and corporations when they fail to safeguard the environment. In doing so, we promote and encourage open and informed debate about society's environmental choices and use research, lobbying and quiet diplomacy to pursue our goals, as well as high-profile, non-violent conflict to raise the level and quality of public debate.

The financial sector must become a lever for positive change. Greenpeace promotes full and honest disclosure in order to allow for the optimal allocation of assets and an orderly transition to low-carbon global economy, thereby protecting investors and making capital markets more efficient.

You can find out more information about Greenpeace's work on finance and disclosure issues on our website³. Examples of Greenpeace's work include:

- In 2014, together with WWF International and the Center for International Environmental Law, Greenpeace International wrote to 35 fossil fuel companies and 45 insurance companies seeking clarity on who bears liability if a claim is successfully brought against the fossil fuel company's directors or officers for funding climate denialism or opposing policies which seek to address climate change.⁴
- In July 2016, Greenpeace USA and seven other environmental groups called on the U.S. Securities and Exchange Commission ("SEC") to require company disclosure on

³ See: Greenpeace International, "*Shifting finance away from dirty, dangerous energy*", 1 July 2016, available at <http://www.greenpeace.org/international/en/campaigns/climate-change/Solutions/Climate-friendly-finance/>; Greenpeace International, "*About Greenpeace's campaign for climate-friendly finance*", 1 July 2016, available at <http://www.greenpeace.org/international/en/campaigns/climate-change/Solutions/Climate-friendly-finance/Greenpeace-follows-the-money/>.

⁴ See Greenpeace International, "*Executives facing climate denial-related claims could be personally liable - NGOs*", 28 May 2014, available at: <http://www.greenpeace.org/international/en/press/releases/2014/Executives-facing-climate-denial-related-claims-could-be-personally-liable---NGOs/>.

environmental, social, and governance risks to investors⁵ in response to the SEC Concept Release on Business and Financial Disclosures;

- In May 2017, Greenpeace Canada made submissions to the Alberta Securities Commission (“ASC”), Ontario Securities Commission (“OSC”) and the CSA stating that Kinder Morgan may have used outdated oil demand projections in its initial public offering prospectus. The ASC acknowledged receiving the submissions and advised that it would give them “the consideration we deem appropriate.” Kinder Morgan subsequently changed their prospectus to include additional climate risks, including physical risks from extreme weather and rising seas, as well as transition risks such as negative impacts on its business arising from national and international progress on meeting the Paris decarbonization goal to reduce demand for hydrocarbons.⁶
- Greenpeace has actively worked with financial regulators around the world to ensure companies fully and truthfully disclose risks in their business before an initial public offering. In Hong Kong, for example, this has led to the withdrawal of the listing applications by a company that have failed to comply with existing environmental regulations.⁷

The current landscape

Under existing Ontario securities rules, issuers are obliged to disclose information relating to climate change if the information is deemed a “*material fact*”⁸, but there is otherwise no explicit obligation for issuers to disclose climate change related information or risks. Thus the materiality of an issue, such as climate change, is dependent upon the importance of such information to the market price or value of the issuer’s securities, or to a reasonable investor. Climate change risks as it translates into physical adaptation, transition and liability risks are highly material to an investor’s decision to buy, sell or hold securities, however due to the multidimensional character of climate risk, a rigorous disclosure framework under the leadership of CSA is needed.

On October 27, 2010 the CSA released *CSA Staff Notice 51-333 Environmental Reporting Guidance* (“**51-333**”).⁹ The purpose of 51-333 is to provide issuers with guidance on existing continuous disclosure requirements relating to environmental matters under Ontario securities legislation. However, while 51-333 provides guidance on making materiality determinations and presents a non-exhaustive list of environmental factors to be considered, it does not create new disclosure obligations nor make any disclosure in and of itself mandatory. Further, issuers are not incentivized to disclose substantive climate change risks beyond existing compulsory

⁵ See letter from Center for International Environmental Law et al. to the U.S. Securities Exchange Commission, 21 July 2016, available at: http://www.ciel.org/wp-content/uploads/2016/07/Final_SEC-comment-letter.pdf.

⁶ See K. Stewart, “*Kinder Morgan investors should be prepared to lose their shirts*”, 29 May 2017, available at <http://www.greenpeace.org/canada/en/blog/Blogentry/kinder-morgan-investors-should-be-prepared-to/blog/59522/>.

⁷ See Greenpeace International, “*China Tuna Industry officially withdraws Hong Kong IPO application*”, 10 December 2014, available at <http://www.greenpeace.org/eastasia/press/releases/oceans/2014/china-tuna-industry-officially-withdraws-hk-ipo-application/>.

⁸ See Securities Act, R.S.O. 1990, c.S.5, section 56(1). Section 1(1) defines material fact as any “*fact that would reasonably be expected to have significant effect on the market price or value of the securities*”.

⁹ CSA Staff Notice 51- 333 Environmental Reporting Guidance, 27 October 2010.

disclosure obligations. As such, we submit that 51-333 has no meaningful impact in seeking to address disclosure of environmental considerations.

Furthermore, 51-333 does not create standards or criteria which can be used as the basis for identifying when environmental risks should be disclosed. For example, there are no specific rules or guidance on how issuers should account for, and report, greenhouse gas (“GHG”) emissions. While there are regulatory requirements to report GHG emissions at both the federal and provincial levels¹⁰, the requirements to report GHG emissions have not been specifically referenced by securities law, staff notices or instruments.¹¹ Reporting and accounting for GHG emissions should be compulsory for high carbon-emitting or carbon-producing issuers in calculating their climate change related risks.

The relationship between the financial sector and climate change

Given the interconnected nature of climate change, international regulators, business owners, and investors have agreed that the physical, economic, technological and policy changes associated with climate change are a material consideration for the economy. In a speech made in March 2017, the Deputy Governor of the Bank of Canada noted that “*climate change itself and actions to address it will have material and pervasive effects on Canada’s economy and financial system.*”¹² He went on to add:

“All investors need to know whether and how companies are exposed to any risks associated with climate change, including the impact of policy changes. For example, will the shift to a lower-carbon economy affect an oil company’s profitability, either through tax changes or reduced demand for oil? Will certain oil reserves become uneconomic—aka ‘stranded assets’?”

*These questions are also important for regulators who assess whether vulnerabilities are building in the financial system. Physical, liability and policy-transition risks could result in the repricing of financial assets—if that were to occur suddenly, it could potentially pose financial stability concerns.”*¹³

As Mark Carney, Governor of the Bank of England has stated with respect to one major sustainability challenge, if firms engaged in “*consistent, comparable, reliable, and clear disclosure*” of their “*carbon change footprint and how they manage their risks and prepare (or not) for a 2 degree world*”, both markets and governments would be able to better manage the

¹⁰ O. Reg. 452/09: Greenhouse Gas Emissions Reporting under Environmental Protection Act, R.S.O. 1990, c. E.19 is an example of recent regulation on GHG emissions reporting as part of Ontario’s Cap and Trade program.

¹¹ 51-333 refers to GHG emissions reporting as emerging trends and policies at various instances but does not substantively account for it.

¹² T. Lane, “*Thermometer Rising—Climate Change and Canada’s Economic Future*”, remarks made at the Finance and Sustainability Initiative in Montréal, Quebec, 2 March 2017, a transcript of which is available at <http://www.bankofcanada.ca/2017/03/thermometer-rising-climate-change-canada-economic-future/>.

¹³ Ibid.

transition to a low-carbon future by supporting the allocation of capital to its risk-adjusted highest-value use in that transition.¹⁴

In May 2017, a majority of investors voted in support of shareholder resolutions calling on two major U.S. oil and gas companies (Occidental Petroleum and ExxonMobil) to assess and disclose their exposure to climate risks and global low-carbon trends¹⁵. The Occidental Petroleum resolution was led by Ceres Investor Network member Wespath Investment Management and co-filed by Ceres Investor Network members Nathan Cummings Foundation, Connecticut Retirement Plans and Trust Fund, CalPERS, and New York City Pension Funds, with crucial support coming from investment giant and Ceres Investor Network member BlackRock.¹⁶

In light of these actions, it is clear that the materiality of climate change disclosure is recognized and accepted by the market. Furthermore, as part of the G20 Task Force on Climate-Related Financial Disclosures, Canada is in agreement with other international leaders that climate-related financial disclosure is necessary to facilitate market transparency and to create methodology for stress-testing the risk profile of investment portfolios. It is therefore not the intention of this submission to further discuss the issue of 'materiality' in relation to climate change disclosure.

Why do we need mandatory climate change risk disclosure?

We submit that given the urgent need to provide Canadian investors, business owners and legal communities with policy certainty, and to manage potential climate impacts on Canada's economic stability, mandatory disclosure is required to catalyze action. In addition to providing transparency, mandatory disclosure standards will increase the speed at which disclosed business information will become consistent and comparable.

There are a range of investment risks related to climate change that have been identified, including:

- Physical adaptation risks, such as those arising from climate and weather-related events that directly impact on physical assets, productivity of businesses and human labour.
- Transition risks, such as changes in climate policy, technology or market sentiment which could prompt reassessment of value of a large range of assets leading to stranded assets.

¹⁴ M. Carney, "Breaking the tragedy of the horizon - climate change and financial stability", speech given at Lloyd's of London, 29 September 2015, a transcript of which is available at <http://www.bankofengland.co.uk/publications/Pages/speeches/2015/844.aspx#>.

¹⁵ S. Mufson, "Financial firms lead shareholder rebellion against ExxonMobil climate change policies", The Washington Post, 31 May 2017, available online at https://www.washingtonpost.com/news/energy-environment/wp/2017/05/31/exxonmobil-is-trying-to-fend-off-a-shareholder-rebellion-over-climate-change/?utm_term=.ba307ef79697.

¹⁶ S. Cleveland, "Investors tell energy companies: focus on climate risks and low-carbon trends", Ceres website, 11 May 2017, available at <https://www.ceres.org/news-center/blog/investors-tell-energy-companies-focus-climate-risks-and-low-carbon-trends>.

- Liability risk, which can arise where parties that have suffered loss or damage from the effects of climate change and seek compensation from those whom they hold accountable.

Though there are number of voluntary disclosure programs that give guidance as to the level of disclosure required for each of the above risks, the voluntary regimes currently in place face a number of limits, such as:

- Lack of comparability between companies (e.g., non-standard metrics, incomplete information or non-disclosure of negative performance).
- Incentive structures (e.g., free rider problem - companies that disclose risks being punished relative to companies that say nothing - or conflicts of interest for companies that have a strong self-interest in downplaying risks).
- Enforcement (e.g., inadequate sanctions, under-enforcement or insufficient resources).
- Failure to challenge corporate culture (e.g., climate risk reporting is something managed by the corporate social responsibility office, not something the board and senior management have to debate and approve).¹⁷

One of the key findings of the FSB Task Force was that “*the success of these recommendations [being those set out in the task force’s report] depends on near-term, widespread adoption by organizations in the financial and non-financial sectors*” and that “*widespread adoption of the recommendations will require ongoing leadership by the G20 and its member countries.*”¹⁸

With particular focus on the Canadian economy, which has a larger than average exposure to potentially stranded assets (namely its oil sands fields¹⁹), we believe that the FSB Task Force’s invitation to ensure near-term, widespread adoption by enacting mandatory requirements should be accepted. Anything less leaves decision-makers, including shareholders, financial analysts and policy-makers, willfully blind to the hazards of responsible investing in the age of climate change.

How should disclosure look?

The Two Degree Scenario

Greenpeace Canada strongly supports the inclusion of scenario modelling as part of the mandatory climate-related financial disclosure. We also recommend that one of the scenarios be consistent with the objective, stated in Article 2 of the Paris Agreement and agreed to by 195 signatory countries, of “*holding the increase in the global average temperature to well below 2°C*”

¹⁷ Adapted from United Nations Environment Program et al., “*Carrots and Sticks - Promoting Transparency and Sustainability, an update on on trends in Voluntary and Mandatory Approaches to Sustainability Reporting*”, available online at <https://www.globalreporting.org/resourcelibrary/Carrots-And-Sticks-Promoting-Transparency-And-Sustainability.pdf>.

¹⁸ See Task Force on Climate-related Financial Disclosures’ Recommendations, p. 41.

¹⁹ See the analysis by the Carbon Tracker Initiative, available at <http://2degreeseperation.com/>

above pre-industrial levels and to pursue efforts to limit the temperature increase to 1.5°C above pre-industrial levels.”²⁰

The FSB’s Task Force noted that scenario analysis is a well-established method for developing strategic plans that are more flexible or robust to a range of future states. Scenario analysis is an important and useful tool for an organization to understand the strategic implications of climate-related risks and opportunities and for informing stakeholders about how the organization is positioning itself in light of these risks and opportunities. It also can provide useful forward-looking information to investors, lenders, and insurance underwriters.

The FSB Task Force recommends that the scenarios in any scenario analysis should have the following characteristics:

- 1. Plausible.** The events in the scenario should be possible and the narrative credible (i.e., the descriptions of what happened, and why and how it happened, should be believable).
- 2. Distinctive.** Each scenario should focus on a different combination of the key factors. Scenarios should be clearly differentiated in structure and in message, not variations on a single theme. Multiple scenarios should be used to explore how different permutations and/or temporal developments of the same key factors can yield very different outcomes.
- 3. Consistent.** Each scenario should have strong internal logic. The goal of scenario analysis is to explore the way that factors interact, and each action should have a reaction. Neither actors nor external factors should completely overturn the evidence of current trends and positions unless logical explanations for those changes are a central part of the scenario.
- 4. Relevant.** Each scenario, and the set of scenarios taken as a whole, should contribute specific insights into the future that relate to strategic and/or financial implications of climate-related risks and opportunities.
- 5. Challenging.** Scenarios should challenge conventional wisdom and simplistic assumptions about the future. When thinking about the major sources of uncertainty, scenarios should try to explore alternatives that will significantly alter the basis for business-as-usual assumptions.²¹

With respect to climate-related financial disclosures, the FSB Task Force recommended that companies report on at least the following three scenarios:

- 1. A business-as-usual scenario:** projections are based on the assumption that operating practices and policies remain as they are at present;

²⁰ United Nations Paris Agreement, 2015, available online at http://unfccc.int/files/essential_background/convention/application/pdf/english_paris_agreement.pdf.

²¹ See Task Force on Climate-related Financial Disclosures, “*The Use of Scenario Analysis in Disclosure of Climate-Related Risks and Opportunities*”, 14 December 2016, pp. 2-3, available at <https://www.fsb-tcfd.org/wp-content/uploads/2016/11/TCFD-Technical-Supplement-A4-14-Dec-2016.pdf>.

2. **A Nationally Determined Contributions (“NDC”) scenario:** projections are based on the assumption that governments implement the stated measures and achieve the greenhouse gas reductions in the NDC plans they submitted as part of the Paris climate agreement. The Task Force emphasizes that current NDCs are not sufficient to deliver the Paris climate agreement’s objective of holding the increase in the global average temperature to well below 2°C above pre-industrial levels and to pursue efforts to limit the temperature increase to 1.5°C above pre-industrial levels. This is why Article 4 of the Paris Agreement introduces the “ratcheting” requirement for countries to communicate enhanced NDCs every five years (i.e., to go further than they have currently committed to in order to achieve the Agreement’s objectives of below 2°C above pre-industrial levels).
3. **A 2°C scenario:** Lays out a pathway and an emissions trajectory consistent with limiting the average global temperature increase to well below 2°Celsius (with an aim of keeping it to 1.5°C). A 2°C scenario provides a common reference point that is aligned with the objectives of the Paris Agreement and will support the evaluation, by analysts and investors, of the potential magnitude and timing of transition-related implications for individual organizations, across different organizations within a sector, and across different sectors.²²

The FSB Task Force has identified a number of challenges related to scenario analysis. First, the majority of publicly-available climate-related scenarios were not designed for individual company risk assessment or financial analysis. Consequently, they do not always provide the ideal level of transparency, range of data outputs, and functionality of tools that would facilitate their use in organizational scenario analysis or third-party analysis by investors or analysts.

Second, scenario-based climate assessments are still in their infancy. Although a handful of the world’s largest companies and investors are applying climate-related scenario analysis as part of their strategic planning and risk management processes, it is not a tool widely used in many sectors that are exposed to transition and physical risks.

Third, few of the organizations that use scenario analysis, whether for transition and/or physical risk, in their strategic planning and risk management processes publicly disclose information about these analyses.

In order to address these challenges, Greenpeace Canada recommends that the federal government’s newly-established Canadian Centre for Climate Services (“**CCCS**”) be tasked with developing scenarios that can be used by companies for climate-related disclosures. The CCCS was established in the 2017 federal budget and will be administered by Environment and Climate Change. Its purpose is to make it easier for governments, communities, decision-makers, businesses and organizations to access data and information on climate science, and help support climate adaptation decision-making across the country.

²² Ibid. pp. 2, 14-17.

Clear Matrixes on Calculating Stranded Asset Risk

A rapid and profound energy transition, consistent with reducing greenhouse gas emissions at a rate capable of meeting the Paris Agreement aim of keeping warming under 2 degrees Celsius, would have significant consequences for a national economy, but particularly for the energy sector.

The resulting expansion of the use of renewables and an increase in energy efficiency, along with the continuing development of other low-carbon technologies, will give rise to many new jobs that support the manufacturing of components, the installation of new projects, retrofits, and maintenance of installations. Fossil fuel consumption, meanwhile, would fall dramatically. A key issue is whether these reductions would lead to severe losses for companies and investors in the fossil fuel industry, or whether the transition to a low-carbon economy could be managed smoothly with minimal losses.

The German government recently asked the International Energy Agency (IEA) and International Renewable Energy Agency (IRENA) to jointly prepare an assessment of what changes would be required in the energy sector to achieve the Paris climate agreement goal. That report - entitled *Perspectives for the Energy Transition: Investment Needs for a Low-Carbon Energy System* - found that “around 40% of gas, 50% of oil and over 80% of steam and coking coal current reserves would be ‘unburnable’”²³.

The report also found that US\$852 billion worth of existing energy infrastructure and fossil fuel reserves would be “stranded” (i.e. unable to recover their capital costs) in this scenario²⁴, but that “delaying decarbonisation of the energy sector would cause the investments to rise and would strand an additional USD 10 trillion in assets.”²⁵

A number of companies appear to be accepting the inevitability of unburnable reserves, yet claiming that their fossil fuel assets won't be stranded. In effect, they are telling investors that someone else's assets will probably be stranded, but not their own.

For example, Suncor published an assessment of the company's exposure to climate risk in 2017 as a response to a resolution passed at their 2016 AGM. The company said that this “Resilience through Strategy” report “is intended to provide investors, and in particular, socially responsible investors, with Suncor's perspective on our energy future. It includes information on our leadership on climate change policy advocacy and innovation as well as explores the challenges and opportunities associated with climate change and the transition to a lower carbon economy.”²⁶

²³ International Energy Agency and International Renewable Energy Agency, “*Perspectives for the Energy Transition, Investment Needs for a Low-Carbon Energy System*”, 2017, p. 107, available online at http://www.irena.org/DocumentDownloads/Publications/Perspectives_for_the_Energy_Transition_2017.pdf.

²⁴ Ibid. pp. 108-111.

²⁵ Ibid. p. 123.

²⁶ Suncor Energy Inc., “Suncor's Climate Report: Resilience through Strategy”, 17 April 2017, p. ii, available online at <http://www.suncor.com/newsroom/news-releases/2138160>.

The company explored three long-term energy futures scenarios, including one (called “Autonomy”) that in Suncor’s opinion “*best represents the technology and policy context*”²⁷ of the IEA’s 450 scenario. The IEA estimates that the 450 scenario has a 50 percent chance of keeping warming below 2 degrees Celsius, so it is not consistent with the Paris Agreement target of keeping warming “*well below*” 2 degrees, but of the three scenarios used by Suncor it brings the world closest to meeting that target.

In Suncor’s Autonomy scenario, the demand for oil drops and oil prices stay low as renewable power generation fuels a largely electrified system and breakthrough battery technology supports growth in electric vehicles. Suncor claims that none of its existing assets would be stranded, but acknowledges that new oil sands growth projects are unlikely to proceed and that overall investments moves out of oil and into renewable energy.

SUNCOR SCENARIOS

Autonomy



Rapid technological and societal change transform the energy landscape.

Millennial shift – focus on sustainability and collaboration, sustainable urbanization.

Falling costs and improved reliability of clean energy allow developing countries to bypass large scale hydrocarbon-based energy infrastructure.

Natural gas is a transitional fuel for power generation, but after 2030 increasingly renewable power generation fuels a largely electrified energy system.

Break through battery technology development supports growth in electric vehicles.

Oil’s role in geo-politics is substantially diminished contributing to a generally stable geo-political environment.

Stable moderately strong economy.

Carbon intensive industries face high regulatory costs and requirements.

No new export pipelines are built out of the Athabasca Oil Sands region.

Energy markets impact

Abundant and cost effective supply of energy coupled with moderation and eventual decline in demand, particularly in transportation, drives oil prices to stay low in the long term.

Oil exploration and production slows as investment moves to other sectors, reducing but not choking supply.

High cost supply falls off fast.

Oil is still required and continues to provide a significant share of the world’s energy need.

Expected impact on Suncor

No existing assets are stranded.

Existing long-life assets continue to produce, funding their own sustaining capital or modest growth capital requirements for incremental production expansion.

New oil sands growth projects are challenged and unlikely to proceed.

Oil sands continues to provide a stable dividend base while growth options in other resource basins are considered.

Only the top tier refineries will remain profitable – Suncor’s downstream maintains a focus on reliable, efficient and low-cost operations.

Source: Suncor Climate Report: Resilience Through Strategy, p. 9.

Yet Suncor still holds vast reserves in the oil sands which are not yet under development and which could be considered to be “unburnable”. A recent report by the Carbon Tracker Initiative found that over 40% of Suncor’s projected capital expenditures through the year 2025 would go to projects that wouldn’t pay off if emissions are held low enough to keep global warming below

²⁷ Ibid. p. 8.

2 degrees Celsius²⁸. Of the 69 global oil and gas companies assessed in the report, Suncor was the 16th most-exposed to a risk of stranded assets.

This discrepancy between the self-reported risk of stranded assets versus that of a third party is an example of why it is important that there be clear metrics for calculating stranded asset risk. We support the recommendations made by the FSB Task Force which calls for disclosure in the following areas:

- governance disclosure - the organization's governance around climate related risks and opportunities;
- strategic disclosure - the actual and potential impacts of climate related risks and opportunities on the organization's businesses, strategy, and financial planning;
- risk management disclosure - how the organization identifies, assesses, and manages climate-related risks; and
- metrics and targets disclosure - the metrics and targets used to assess and manage relevant climate related risks and opportunities.

In particular, we support the recommended disclosure for metrics that include (on a non-exhaustive basis):

- To disclose the metrics used by the organization to assess climate related risks and opportunities in line with its strategy and risk management process;
- To disclose Scope 1, Scope 2, and, if appropriate, Scope 3 greenhouse gas (GHG) emissions, and the related risks; and
- To describe the targets used by the organization to manage climate related risks and opportunities and performance against targets.

How can the CSA or the OSC make such disclosure mandatory?

Securities regulators can establish requirements for when and how information must be disclosed by public companies and investment funds.²⁹ In Ontario (and similar rules apply elsewhere), the Commission is required to published proposed rules for public comment, finalize the rule in its final form, and deliver it to the Minister of Finance for review (unless an exception to the notice requirement applies). The Minister may then approve or reject the rule, or return it to the Commission for further consideration.³⁰

We believe that a staff notice or a non-binding policy is not sufficient in this instance. Security regulators should amend the relevant national instruments to reflect a rigorous consideration of

²⁸ Carbon Tracker Initiative, "Two Degrees of Separation: Transition Risk for Oil and Gas in a Low Carbon World", p. 27, available online at http://2degreeseperation.com/reports/2D-of-separation_PRI-CTI_Summary-report.pdf.

²⁹ http://www.osc.gov.on.ca/en/Investors_disclosure-requirements_index.htm

³⁰ Securities Act, R.S.O. 1990, c.S.5, section 143.

climate change risks. This amendment should include clear provisions for enforcing the requirements.

The OSC has the authority to impose a range of sanctions on issuers for violating securities law or conduct that is contrary to the public interest. Under section 127 of the Securities Act³¹, the OSC has the power to make orders in the public interest and apply penalties. Although this section has its limitations, the OSC has exercised enforcement powers with respect to the failure to disclose material fact or change to investors under this section in the past. Sanctions have included the issuance of injunctions, requiring the resignations of officers or directors, or suspension of registration.³² The option to sanction an issuer for failing to disclose a material fact or change is within the jurisdiction of the OSC and an option when encouraging or enforcing climate change disclosure obligations.

The broad discretion of sanctions which exists at a legislative level allows the OSC to determine what is in the public interest. Greenpeace would echo the findings of the FSB Task Force and strenuously urge that issues of climate change be considered as constituting public interest matters. The OSC should prioritize the enforcement of adequate disclosure of climate change risks. The failure to disclose climate change risks based on a comprehensive set of a mandatory disclosure guidelines should be considered by the OSC.

Conclusion

We strongly recommend that the CSA and OSC exercise their powers to protect investors from unfair, improper or fraudulent practices, and to foster fair and efficient capital markets and confidence in financial systems. Climate change risk is now widely recognized by international financial regulators as a factor affecting financial stability.³³

We strongly urge Canadian financial regulators to follow policy makers around the world in implementing mandatory climate risk disclosure. By making such disclosures mandatory and consistent across all corporations, Canada will join international leaders in ensuring financial stability in the age of climate change. We note that in 2016, France adopted the first mandatory disclosure requirements specific to climate change in its newly adopted Article 173 of the French Energy Transition Law³⁴; likewise, in 2017 Bank of England has recently begun its independent review of climate risk for the banking sector in their new climate response strategy.³⁵

³¹ Ibid., section 127.

³² For example, the OSC has previously issued an injunction in relation to the trading of stocks of an impugned issuer (*YMB Magnex International Inc*, OSC Decision, 2003 LNONOSC 337 at para 90, (2003), 26 OSCB 5285)

³³ For example, see Financial Stability Board's website, available at <http://www.fsb.org/what-we-do/policy-development/additional-policy-areas/developing-climate-related-financial-disclosures/>.

³⁴ For details on the law, see <http://www.gouvernement.fr/en/energy-transition>.

³⁵ Bank of England, "*The Bank of England's response to climate change*", Quarterly Bulletin 2017 Q2, available online at <http://www.bankofengland.co.uk/publications/Pages/quarterlybulletin/2017/q2/a2.aspx>.

We further recommend that CSA and OSC incorporate modelling as part of the mandatory climate-related financial disclosure. Additionally, we support the recommendations set forth by the FSB Task Force for making disclosure relating to businesses' adaptation risks, transition risks, and liability risks. In particular, we agree that not only do organisations need to disclose their governance and strategy for climate related risks, but it is highly important that businesses publish their processes of risk management along with metrics and targets used in managing climate risks and opportunities.

If you should have any queries relating to the above, please contact Keith Stewart, Senior Energy Strategist with Greenpeace Canada.

Yours faithfully,

A handwritten signature in black ink that reads "Keith Stewart". The signature is written in a cursive style with a long horizontal stroke at the end.

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