Summary Report: Study of Climate-related Disclosures by Canadian Public Companies (January 2020)

Objective of the Study

This report is a follow-up to CPA Canada's 2016 study, State of Play: Study of Climate-related Disclosures by Canadian Public Companies (the 2016 Study).[1]

Since the 2016 Study, the final recommendations of the Task Force on Climate-related Financial Disclosures (TCFD) were released,[2] and there has been increased momentum for the disclosure of climate-related issues in mainstream financial filings.

Demands by investors for better reporting on climate-change risks and opportunities have also prompted the Canadian Securities Administrators (CSA) to review disclosure practices and issue two staff notices (see sidebar).

The objective of this study (the 2019 Study) is to review climate-related disclosures made by leading Canadian public companies in their regulatory filings and assess the alignment of these disclosures with the TCFD Recommendations.

CSA staff notices on climate change related disclosures

CSA Staff Notice 51 354 *Report on Climate change related Disclosure Project* (published April 2018) reported on findings of the CSA project that reviewed disclosure by reporting issuers of risks and financial impacts associated with climate change. The notice summa rized the work completed, findings from the project, and recommended areas of future work.

CSA Staff Notice 51 358 *Reporting of Climate Change related Risks* (published in August 2019) provided issuers with guidance on how they might approach preparing disclosures of material climate change related risks. The notice does not create any new legal requirements or modify existing requirements. The notice reinforces and expands upon the guidance provided in CSA Staff Notice 51 333 *Environmental Reporting.*

1 "State of Play: Study of Climate-Related Disclosures by Canadian Public Companies" (CPA Canada, 2017).

2 "Recommendations of the Task Force on Climate-Related Financial Disclosures: Final Report" (Task Force on Climate-Related Financial Disclosures, Financial Stability Board: June, 2017) [TCFD Recommendations].

It also aims to compare these results with the results of the 2016 Study, which was conducted prior to the release of the TCFD recommendations. Given the difference in size and basis of the samples, the results of the two studies are not directly comparable, but we have made observations on trends where possible.[3]

Study Highlights

- Compared to the 2016 Study, companies are providing more information on climate-related risks and opportunities in regulatory filings (predominantly Management's Discussion and Analysis [MD&A]), but the quality of disclosures still varies.
- Almost all companies (98%) included climate-related disclosure in at least one of the four TCFD-recommended categories.
- Only one company (from the utilities sector) disclosed in all four TCFD-recommended categories and the corresponding 11 sub-categories.
- On average, companies disclosed in 4.2 of the eleven TCFD sub-categories.[4]
- Eighty per cent included climate-related strategy disclosures, making it the most commonly disclosed category.
- Only two companies (one from the industrials sector and one from the utilities sector) included the results of their scenario analysis in their disclosure. Four additional companies disclosed they had conducted scenario analysis but did not provide the results.
- Fifteen per cent of companies disclosed GHG emissions in regulatory documents as opposed to voluntary reporting where 80% of companies disclosed GHG emissions.
- The most common location for disclosure in regulatory documents was the MD&A filing, followed by the Annual Information Forms (AIF).

3 See Appendix for details on our approach for the study

4 The average number of recommended disclosures per company is 3.6 as per the TCFD Global Status Report. Source: *Task Force on Climate-related Financial Disclosures: Status Report* (Task Force on Climate-related Financial Disclosures, Financial Stability Board: June 2019), p. 8.

1. Climate-related Risks and Opportunities

The most commonly disclosed climate-related risks related to policy and physical risk.

In total, 58% of companies disclosed physical risks. Thirty-one per cent of companies disclosed physical risks in the 2016 Study.[5]

In the energy sector and telecommunications sector, companies commonly disclosed risks such as damage to infrastructure from extreme weather events, and in the financial sector, companies commonly disclosed risks such as increases in consumer insurance rates, and uncertainty around the long-term viability of real estate as security for investments.

TABLE 2 — RESULTS FROM CLIMATE-RELATED RISKS AND OPPORTUNITIES DISCLOSURES

TCFD recommended disclosures		Most disclosed risks and opportunities	% of companies that disclosed
Risks and opportunities	**Risks**	**1. Transition: policy risk**	**70%** disclosed policy risks
		2. Physical risks	**58%** disclosed physical risks **48%** disclosed chronic physical risks **45%** disclosed acute physical risks[6]
	Opportunities	**1. Products and services**	**33%** disclosed opportunities for products and services
		2. Resource efficiency	**28%** disclosed resource-efficiency opportunities
		3. Energy source	**25%** disclosed energy-source opportunities

5 2016 Study, p. 26. Note that the 2016 Study did not differentiate between acute and chronic risks.

6 As defined in the TCFD Recommendations at p. 6, chronic physical risks refer to longer-term shifts in climate patterns (e.g., sustained higher temperatures) that may cause sea level rise or chronic heat waves, whereas acute physical risks refer to those that are event-driven, including increased severity of extreme weather events, such as cyclones, hurricanes, or floods.

2. Governance

Forty-eight per cent of companies, mainly in the financial and energy sectors, provided disclosure on board oversight of climate-related risks and opportunities. The 2016 Study found that 27% of companies disclosed oversight for climate-related risks as the responsibility of the board or board subcommittees.[7]

TABLE 3 — RESULTS FROM GOVERNANCE DISCLOSURES

Recom mendation category	TCFD recommended disclosures (sub category)	% of companies that disclosed in alignment with TCFD recommended disclosure
Governance	**1. Board oversight** Board oversight of climate-related risks and opportunities	**48%** of companies described the board's oversight of climate-related risks and opportunities, including disclosures in one or more of the following TCFD-recommended areas: • the processes and frequency by which the board and/or board committees are informed about climate-related issues (40%) • whether the board and/or board committees consider climate-related issues when reviewing and guiding organizational strategic and operational activities (33%) • how the board monitors and oversees progress against goals and targets for addressing climate issues (10%)
	2. Management responsibility Management's role in assessing and managing climate-related risks and opportunities	**35%** of companies described management's role in assessing and managing climate-related risks and opportunities including disclosures in one or more of the following TCFD-recommended areas: • whether climate-related issues are assigned to management-level positions or committees (28%) • a description of the overall organizational structure (5%) • processes by which management is informed about climate-related issues (8%) • how management monitors climate-related issues (8%)

7 2016 Study, p. 21-22.

3. Strategy

More than three quarters of companies reviewed (80%) disclosed information on their climate-related strategies (e.g., implementing internal carbon pricing mechanisms, transitioning to renewable energy sources etc.). Only two companies (one from the industrials sector and one from the utilities sector) described the impact of climate scenarios.

TABLE 4 — RESULTS FROM STRATEGY DISCLOSURES

Recom mendation category	TCFD recommended disclosures (sub category)	% of companies that disclosed in alignment with TCFD recommended disclosure
Strategy	**1. Time periods** Climate-related risks and opportunities that the organization has identified over multiple time periods	**35%** of companies described the climate-related risks and opportunities the organization has identified over the short, medium, and long-term including disclosures in one or more of the following TCFD-recommended areas: • a description of what they consider to be the relevant short-, medium-, and long-term time horizons (8%) • a description of specific issues for each time horizon (18%) • a description of the process for determining which risks and opportunities could have a material financial impact on the company (15%)
	2. Impact Impact of climate-related risks and opportunities on the organization's business, strategy and financial planning	**80%** of companies described the impact of climate-related risks and opportunities on the organization, including disclosures in one or more of the following TCFD-recommended areas: • the impact on business and strategy (73%) • how these issues are input into their financial planning process, the time period(s) used, how they are prioritized, and the impact on operating costs and revenues, capital expenditures and allocation, acquisitions or divestments, and access to capital (8%) • how interdependencies among the factors affect the company's ability to create value over time (8%) • the impact on financial planning (35%), and • a description of any climate scenarios that were used, if any (10%)
	3. Climate scenarios Resilience of the organization's strategy, considering different climate-related scenarios	**5%** of companies described the resilience of the organization's strategy, considering different forward-looking climate-related scenarios (including a 2°C or lower scenario), including disclosures in one or more of the following TCFD-recommended areas: • how their strategies are likely to perform under various forward-looking, climate-related scenarios (e.g., potential effects under different scenarios) (5%) • any resulting changes to the company's strategy and financial planning in order to mitigate risks and take advantage of climate-related opportunities (3%)

4. Risk Management

Approximately half the companies disclosed their processes for identifying and/or managing climate-related risks and opportunities, but there were fewer disclosures regarding the integration of these risks and opportunities into a company's overall risk management framework.

TABLE 5 — RESULTS FROM RISK MANAGEMENT DISCLOSURES

Recom mendation category	TCFD recommended disclosures (sub category)	% of companies that disclosed in alignment with TCFD's recommended disclosure
Risk management	**1. Identifying** Processes for identifying and assessing cli-mate-related risk	**50%** of companies described processes for identifying and assessing climate-related risk, including disclosures in one or more of the following TCFD-recommended areas: • processes for identifying and assessing climate-related risks (43%) • how the company determines the relative significance of climate-related risks in relation to other risks (10%) • how the company considers existing and emerging climate-related factors and developments (10%) • processes for assessing the potential size and scope of climate-related risk (3%) • references to or definitions of risk terminology and existing risk classification frameworks (18%)
	2. Managing Processes for managing cli-mate-related risk	**53%** of companies described processes for managing climate-related risk, including disclosures in one or more of the following TCFD-recommended areas: • processes for managing climate-related risks, including how decisions are made to mitigate, transfer, accept or control those risks (50%) • processes for prioritizing climate-related risks, including how materiality determinations are made within their organizations (8%)
	3. Integration How processes for identifying, assess-ing and managing climate-related risk are integrated into overall risk management	**20%** of companies described how they integrated the sub-sequent TCFD-recommended processes into overall risk management, including disclosures in one or more of the following TCFD-recommended areas: • processes for identifying climate-related risks (20%) • processes for assessing climate-related risks (13%) • processes for managing climate-related risks (13%)

5. Metrics and Targets

Fifty-three per cent of companies disclosed metrics used to assess climate-related risks and opportunities. The 2016 Study found that 28% of companies used metrics to quantify climate-related risks and opportunities.[8] Companies using metrics other than GHG emissions disclosed, for example, CDP scores and measures of energy use and fuel efficiency.

Six companies (15%) disclosed GHG emissions. These companies represented all sectors except for consumer staples.

The 15% of companies in the 2019 Study that disclosed GHG emissions in regulatory filings can be further contrasted with 80% of companies disclosing GHG emissions in voluntary reporting.

Five companies disclosed performance against their own climate-related targets. Some examples of metrics used to measure performance against these targets include GHG emission reductions, developing sustainable energy solutions and reducing fuel consumption.

Targets are difficult to compare among companies or sectors because some companies based their targets on absolute emissions while others calculated their targets per square foot, among other measures.

8 2016 Study, p. 28.

TABLE 6 — RESULTS FROM METRICS AND TARGETS DISCLOSURES

Recom mendation category	TCFD recommended disclosures (sub category)	% of companies that disclosed in alignment with TCFD recommended disclosure
Metrics and targets	**1. Key metrics** Metrics used by the organization to assess climate-related risks and opportunities in line with its strategy and risk management processes	**53%** of companies disclosed the metrics used to assess climate-related risks and opportunities in line with its strategy and risk management practices including disclosures in one or more of the following TCFD-recommended areas: • key metrics used to measure and manage some climate-related risks and opportunities (55%) • providing metrics over a historical period to allow for trend analysis (3%) • where it was not apparent, describing methodologies used to calculate or estimate these key metrics (5%)
	2. GHG emissions Disclose Scope 1, Scope 2, and, if appropriate, Scope 3 GHG emissions and the related risks	**15%** of companies disclosed GHG emission figures including disclosures in one or more of the following TCFD-recommended areas: • Scope 1 and Scope 2 GHG emissions (calculated in line with the GHG Protocol methodology[9]) (15%) • if appropriate, Scope 3 GHG emissions (3%) • providing generally accepted sector-specific GHG efficiency ratios (3%)
	3. Targets Describe the targets used by the organization to manage climate-related risks and opportunities, and performance against those targets	**30%** of companies described key targets used by the organization to manage climate-related risks and opportunities and performance against targets including disclosures in one or more of the following TCFD-recommended areas: • key climate-related targets such as those in line with anticipated regulatory requirements or market constraints or other goals, including whether targets are absolute or intensity based, the time frame over which a target applies, the base year from which the target is measured, and key performance indicators used to assess performance against targets (30%) • a description of the methodologies used to calculate and measure targets (3%)

9 *The Greenhouse Gas Protocol: A Corporate Accounting and Reporting Standard* (World Business Council for Sustainable Development). The TCFD has acknowledged the GHG Protocol as the most widely recognized and used international standard for calculating GHG emissions.

Recommendations for Improving Climate-related Disclosure

While we are seeing improvements in the climate-related disclosures of Canadian companies, they still appear to lack the scale and quality needed to satisfy investor demands.

What practical steps can be taken by organizations to improve climate-related disclosures?

1. **Build understanding**
   - Improve understanding of the regulatory landscape and applicable climate-related disclosure requirements.
   - Use consistent language, in alignment with the TCFD Recommendations, to describe climate related risks and opportunities across the organization.
2. **Establish leadership**
   - Increase climate literacy at all levels throughout the organization.
   - Attract executive sponsorship critical for successful implementation through strong "tone at the top."
   - Increase board engagement in overseeing climate-change issues.
3. **Develop an approach**
   - Research, socialize, develop and implement a formal climate strategy and embed it into existing systems.
   - Build cross-functional teams and establish accountability structures or measures.
   - Understand how the organization collects and analyzes climate-related information, including processes for ensuring accuracy and reliability.
4. **Perform an assessment to understand material climate-related financial risks and opportunities and recognize that disclosures will evolve**
   - Utilize existing tools and expertise to apply qualitative or quantitative assessments of climate related risks and opportunities in business operations and/or future strategies.
   - Increase transparency on how your organization assesses climate-related risks and opportunities, with the expectation that improving climate-related disclosures should lead to the emergence of best practices for disclosure across sectors.
5. **Ongoing engagement**
   - Proactively engage with peers, investors and other stakeholders to better understand expectations and evolving best practices for climate-related reporting.

Supplementary Information and Resources

Source	Title	Publication Date
CPA Canada	*Disclosing the Impacts of Climate Change: A Process for Assessing Materiality*	**2019**
CPA Canada	Webinar – *Scenario Analysis and TCFD Climate Risk Disclosure: The Next Frontier in Corporate Reporting?*	**2019**
CPA Canada	Progressive Investors and Corporate Disclosure: The Unstoppable Transition to a Resilient, Low Carbon Economy	**2019**
CPA Canada	Task Force on Climate-related Financial Disclosures: Overview	**2018**
Sustainability Accounting Standards Board (SASB) and Climate Disclosure Standards Board (CDSB)	*TCFD Implementation Guide*	**2019**

Appendix

Our Approach

CPA Canada commissioned Mantle314 Inc. to conduct a study of the climate-related disclosures provided by 40 TSX-listed companies[10] in their regulatory and voluntary reporting, while assessing alignment with the TCFD Recommendations.

The study assessed the 2018 financial statements, AIF, MD&A, and information circulars for the companies under review. In addition, available voluntary disclosures[11] such as corporate social responsibility (CSR)/sustainability reports, and CDP[12] reports were also reviewed to assess how voluntary reporting compared to mandatory reporting.

This summary report focuses on findings from regulatory disclosures unless explicitly stated otherwise. An expanded discussion on voluntary disclosures will be found in the full report associated with the 2019 Study, to be released later in 2020.

Climate-related disclosures made by issuers were assessed across the four main TCFD-recommended categories and 11 sub-categories:[13]

10 Representing 50% of the market capitalization of the S&P/TSX Composite Index, as of January 8, 2019.

11 Out of the 40 companies reviewed, 38 had recently published voluntary reports.

12 Formerly known as the Carbon Disclosure Project.

13 Figure 1 taken from TCFD Recommendations, p. 14.

FIGURE 1 — TCFD RECOMMENDED DISCLOSURE CATEGORIES AND SUB-CATEGORIES[14]

Governance	Strategy	Risk management	Metrics and targets
Disclose the organization's governance around climate-related risks and opportunities.	Disclose the actual and potential impacts of climate-related risks and opportunities on the organization's businesses, strategy, and financial planning **where such information is material.**	Disclose how the organization identifies, assesses, and manages climate-related risks.	Disclose the metrics and targets used to assess and manage relevant climate-related risks and opportunities **where such information is material.**
Recommended disclosures	**Recommended disclosures**	**Recommended disclosures**	**Recommended disclosures**
1. Describe the board's oversight of climate-related risks and opportunities.	1. Describe the climate-related risks and opportunities the organization has identified over the short, medium, and long term.	1. Describe the organization's processes for identifying and assessing climate-related risks.	1. Disclose the metrics used by the organization to assess climate-related risks and opportunities in line with its strategy and risk management process.
2. Describe management's role in assessing and managing climate-related risks and opportunities.	2. Describe management's role in assessing and managing climate-related risks and opportunities.	2. Describe the organization's processes for managing climate-related risks.	2. Describe Scope 1, Scope 2, and if appropriate, Scope 3 green house gas (GHG) emissions, and the related risks.
	3. Describe the resilience of the organization's strategy, taking into consideration different climate-related scenarios, including a 2˚C or lower scenario.	3. Describe how processes for identifying, assessing, and managing climate-related risks are integrated into the organization's overall risk management.	3. Describe the target used by the organization to manage climate-related risk and opportunities and performance against targets.

14 www.fsb-tcfd.org/wp-content/uploads/2017/06/FINAL-2017-TCFD-Report-11052018.pdf

The study deliberately focused on larger public issuers. Twelve out of the 40 companies reviewed have publicly stated their support for the TCFD recommendations and have a demonstrated record in providing climate-related disclosures.[15]

Companies were selected from the following eight sectors:

1. consumer discretionary (4)
2. consumer staples (1)
3. energy (7)
4. financials (9)
5. industrials (6)
6. materials (mining and forestry) (7)
7. telecommunication services (3)
8. utilities (3)

Given the limited sample size included in the study, caution should be exercised in drawing broad conclusions.

The 2016 Study sample was determined on a different basis. Please see Appendix A of the 2016 Study for details.

15 Climate leaders were identified by determining that they were public supporters of the TCFD and/or had a minimum CDP score of B-. The Canadian public companies that have officially supported the TCFD recommendations are listed on the TCFD website, and are current as of January 28, 2019.

Contact

CPA Canada plans to continue this dialogue with its members and other key stakeholders in order to develop actionable thought leadership and guidance to enable organizations to respond to increasing demands for enhanced climate-related disclosure.

We value the views and feedback of our members. Comments should be addressed to:

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