



Pension Investment  
Association of Canada

Association canadienne des  
gestionnaires de caisses de retraite

July 29, 2022

Emmanuel Faber, Chair  
Suzanne Lloyd, Vice-Chair  
International Sustainability Standards Board  
Columbus Building  
7 Westferry Circus  
Canary Wharf  
London E14 4HD, UK

<mailto:commentletters@ifrs.org>

**Re: Comments on ISSB's Exposure Draft IFRS S1 General Requirements for Disclosure of Sustainability-related Financial Information, and Exposure Draft IFRS S2 Climate-related Disclosures**

Dear Mr. Faber and Ms. Lloyd,

The purpose of this letter is to provide feedback from the Pension Investment Association of Canada (PIAC) to the IFRS Foundation International Sustainability Standard Board (ISSB) regarding the above-mentioned exposure drafts.

PIAC has been the voice for Canadian pension funds since 1977 in matters related to pension investment and governance. PIAC's members manage over \$2.8 trillion of assets on behalf of millions of Canadians. Our mission is to promote sound investment practices and good governance for the benefit of plan sponsors and beneficiaries.

PIAC members operate within a fiduciary framework that imposes a duty of loyalty and a duty of prudence on plan administrators. Pension plan trustees are required to act in good faith and in the best interests of plan members and beneficiaries while preserving the intergenerational fairness of the plan(s). PIAC believes, because of the potential for ESG factors, particularly climate change, to have financial impacts on plan investments now and well into the future, it is within the scope of our members' role as fiduciaries, as currently defined, to consider these in their investment processes and stewardship activities.

PIAC commends and supports and initiative taken by the ISSB to develop a global standard for sustainability disclosure with an eye toward facilitating the disclosure of consistent, comparable and reliable information on sustainability performance. We agree with the primary objective of disclosing sustainability-related financial information that is useful to the primary users of the entity's general purpose financial statements, including pension plan investors. Please note this letter does not address all the IFRS's questions, rather we are focussed on those relevant to PIAC's mandate and that of our organization's Investor Stewardship Committee.

### **Building upon existing frameworks**

PIAC appreciates and supports the ISSB's decision to build upon existing reporting frameworks, namely the four pillars of the TCFD recommendations. We also support the notion of including additional industry specific metrics. We strongly support the ISSB guiding users to the SASB standards to help identify and monitor industry specific sustainability risks and metrics as we are comfortable with SASB's determination of material ESG topics at the industry level. We support increasing the international applicability of the SASB standards to ensure the consistency and comparability of climate disclosure for all users.

### **Defining Materiality**

We have noted that throughout the exposure drafts the concepts of materiality and significance are used throughout and interchangeably and without precise definitions. For example, in IFRS S1, paragraph 2 refers to material information for significant risks and opportunities. PIAC believes that it is important to be precise and recommends that material be used throughout the standard. Further, where it comes to defining materiality, PIAC believes that guidance relating to information that will allow a user assess enterprise value may be an overly narrow focus. Our recommendation is that the guidance be broadened to include information that can be used in the decision making of users of general purpose financial reporting and these decisions may also include stewardship activities as well as investment activities. In addition, we noted that the definition of enterprise value in the appendix suits a public company (i.e., reference to market capitalization) but may not apply widely.

### **Timing and Location of Reporting**

PIAC supports the proposal to have sustainability-related financial information disclosed at the same time and for the same reporting period of the financial statements. This will provide all users of the data a complete and integrated picture current and future sustainability risks and opportunities that may impact the entity. We also support the proposal to have the required disclosures located within the company's general purpose financial reporting.

## **Costs vs. Benefits**

There are many direct and indirect benefits associated with the new standards being proposed. Predominately, having consistent, comparable, and high-quality disclosures, disclosed on an annual basis globally, is critical for investors to better assess sustainability risks/opportunities and make informed decisions when allocating capital, while motivating and differentiating companies that are working towards decarbonization and other sustainability initiatives. We recognize that there will be costs associated with developing and implementing disclosures, however, the standardization of climate-related reporting will also reduce the burden for preparers currently subject to multiple reporting requests from varied stakeholders. Furthermore, we believe these are more than offset by the benefits in helping entities understand the impact of climate risks and opportunities on them, and to satisfy investors needs for transparent, high-quality, globally comparable sustainability information.

## **Climate Change: Cross Industry Metrics, Transition plans and Targets**

PIAC has advocated for mandatory climate-related disclosure for many years. We believe this to be an imperative as the physical, transition and regulatory risks associated with climate change are ubiquitous throughout economies and represent a material risk within our portfolios that can not be mitigated through diversification. Investors therefore need consistent, comparable and reliable data from the companies to allow them to understand the financial implications of climate change on a company's business model, how management and the board is overseeing this risk, and how companies are measuring and monitoring their Scope 1, 2 and 3 emissions.

Therefore, we strongly support the notion of not only aligning disclosure with the TCFD recommendations but also requiring disclosure on a discrete set of cross-industry metrics. We believe the seven metrics that are currently proposed (GHG emissions (absolute and intensity), transition and physical risks, climate-related opportunities, internal carbon pricing, capital deployment towards climate-related risks and opportunities and percentage of executive management remuneration) are appropriate and will yield a comparable data set that will assist PIAC members in fully understanding an entity's risk exposure.

Since Climate change poses a systemic risk to both issuers and investors and creates an imperative to support the orderly transition to a low-carbon economy, information on a companies' transition plans, including how a company intends to align to a low carbon economy and the establishment of short and long-term targets is useful to investors. Disclosure of targets and transition plans allows investors to verify the credibility of an organizations' commitments related to climate change, which is vital to investors' assessment of risks.

We recommend that disclosure of targets and transition plans be consistent with TCFD guidance. We also support the disclosure of key metrics and progress towards targets, plans to mitigate or adapt to any material physical or transition risks, as well as any plans to capitalize on any identified climate-related opportunities.

**Effective Date**

Investor expectations for sustainability and climate-related disclosures from issuers is growing quickly and so are regulatory requirements in many jurisdictions. We would encourage the timely implementation of the standards, as soon as is practical after the Standard is finalized. We would support the ISSB if it considered a phased in approach that required earlier compliance from larger companies and allowed for some time to smaller or less sophisticated reporting entities to acquire the necessary resources or expertise. This approach has been proposed by regulators in the United States and Canada with regard to their own proposed climate-related disclosure requirements.

PIAC would like to again thank the IFRS for this opportunity to contribute our ideas to this extremely important work. Please reach out to Susan Golyak, Chair of PIAC's Investor Stewardship Committee if you would like any clarification of these comments.

Yours sincerely,

A handwritten signature in black ink, appearing to be 'Sean Hewitt', with a stylized, cursive script.

Sean Hewitt  
Chair