



Millani's TCFD Disclosure Study: A Canadian Perspective

June 14, 2021

With increasing regulatory pressure and investor demand for climate-related disclosure, Millani has examined the extent to which the S&P/TSX Composite Index aligns with the Task Force on Climate-related Disclosures (TCFD) recommendations. Millani found that 23% of constituents are currently reporting in alignment with the TCFD recommendations. This implies that Canadian issuers are exposed to the risk of diminishing their access to capital and, by extension, limiting investors' access to their returns. Further findings of the analysis are presented in this report.

Canadian issuers are in the early stages

In response to growing market and regulatory pressures for TCFD-aligned disclosure, Millani evaluated the quantity and the quality of current TCFD disclosures by issuers listed on the S&P/TSX Composite Index.

Of the 228 companies listed on the S&P/TSX Composite Index (as of April 20, 2021), Millani found that 23% of issuers provided a clear statement indicating that their reports were aligned with the TCFD recommendations. 14% of issuers expressed a desire to align with TCFD recommendations in the future, and a further 9% mentioned the TCFD recommendations without indicating whether or not they were aligned. Large-cap constituents (>\$10B market capitalization) make up 75% of issuers that are currently aligning to TCFD and 60% of issuers that are planning to report.

The remainder (54%) had no mention of the TCFD in their publicly available information at the time of analysis. From the reports that aligned with the TCFD recommendations, 5% were published in 2021, 64% in 2020, 27% in 2019, and no publication year was provided for the remaining 4%.

By contrast, the Institute for Sustainable Finance found that 66% of the S&P/TSX Composite Index had provided GHG emission disclosures² (as of April 2021). As such, while Canadian companies may have higher disclosure rates for emissions, they appear to be in the early stages of understanding climate change impacts on their business and have yet to implement broader alignment with TCFD recommendations, which also implicates governance, strategy, and risk management.

Of those currently disclosing, 33% had standalone TCFD reports, 56% had integrated their TCFD reporting into ESG or Sustainability Reports, and the remaining 11% placed TCFD-related information on their website, in CDP disclosures, or in regulatory filings.

Figure 1
TCFD adoption by S&P/TSX Composite Index constituents

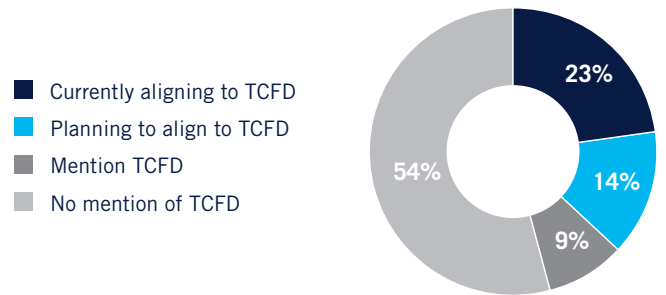
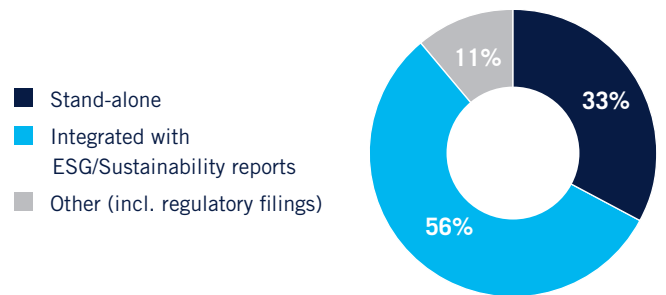


Figure 2
Location of TCFD-aligned disclosure



These results demonstrate that the majority of Canadian issuers are not currently in a position to meet the growing demand for climate-related information from investors and regulators. This may have material implications for Canadian companies, in particular relating to their cost and ability to access capital from Canada and abroad.

What is the TCFD?

In 2017, the Financial Stability Board's Taskforce on Climate-Related Financial Disclosures (TCFD), spearheaded by Michael Bloomberg and Mark Carney, issued 11 recommendations¹ for companies on how to communicate with investors on material climate-related information. These recommendations are grouped into four areas – 1) Governance, 2) Strategy, 3) Risk Management, 4) Metrics and Targets – and have since become a cornerstone of financial reporting on climate change.

1. Task-Force on Climate-Related Financial Disclosures, Final Report: Recommendations of the Task Force on Climate-related Financial Disclosures, June 2017
2. Institute for Sustainable Finance, Assessing Current Canadian Corporate Performance on GHG Emissions, Disclosures and Target Setting, April 2021

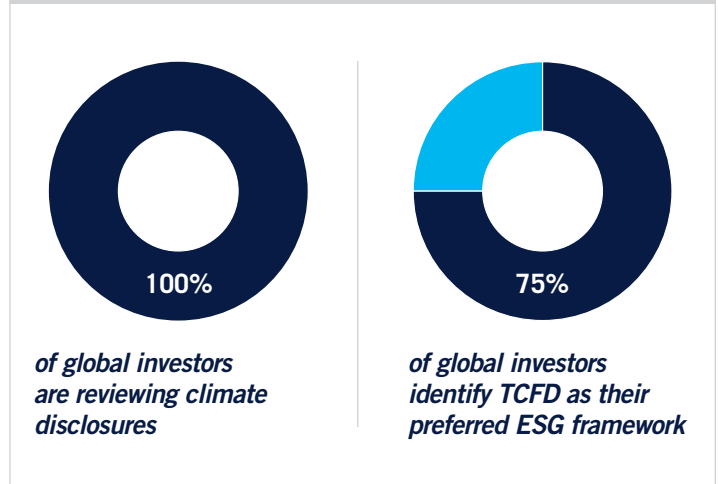
Demand for TCFD disclosure is rising

Demand for TCFD-aligned disclosure is being driven by investors' desire to properly assess their investments' climate-related risks and opportunities. In a 2021 survey of 42 global institutional investors (representing US\$29 trillion of assets under management), Morrow Sodali found that **100%** of investors are reviewing their portfolio companies' climate-related disclosures. Additionally, 75% of respondents nominated TCFD as their preferred ESG reporting framework, followed by SASB at 53%. Investors are not alone - as of May 2021, over 2,000 organizations worldwide had expressed their support for the TCFD's recommendations, representing a market capitalization of almost US\$20 trillion and financial institutions managing US\$175 trillion worth of assets⁴.

In Millani's 2021 ESG Sentiment Study of Canadian Institutional Investors⁵, 75% of respondents indicated that they are currently aligning or planning to align their own reporting to TCFD. 81% of interviewed investors considered climate change to be in their top three engagement priorities, and 56% claimed it was their number one priority. Canadian investors are clearly expressing their desire for climate-related disclosure that is aligned to the TCFD's recommendations.

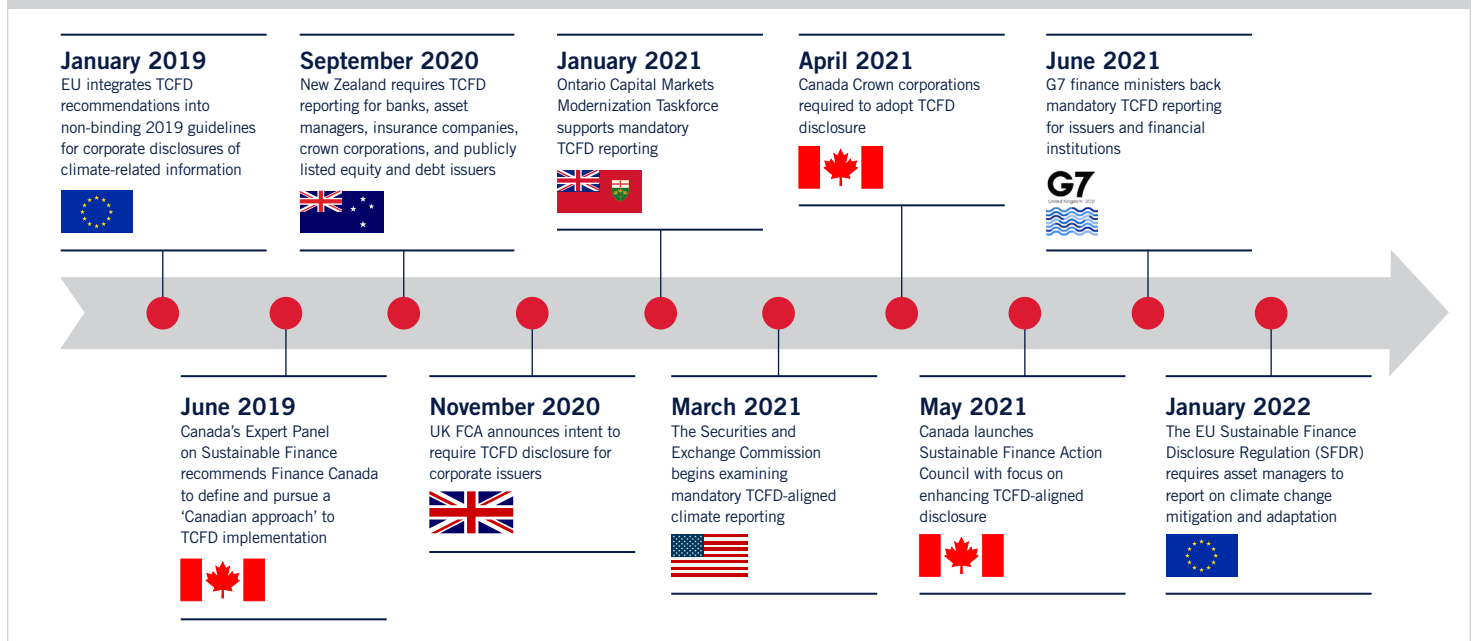
At the same time, there is growing momentum to integrate TCFD recommendations with climate disclosure regulations worldwide.

Figure 3
Investors are looking for TCFD disclosure³



As seen in **Figure 4**, jurisdictions around the world are relying increasingly on the TCFD recommendations as a framework for climate-related disclosure of both issuers and financial institutions. This trend, initially led by the EU and New Zealand, is accelerating in the USA given the Biden administration's recent government-wide focus on climate change.

Figure 4
The rise of mandatory TCFD reporting



3. Morrow Sodali, Institutional Investor Survey, May 2021
4. Financial Times, Measuring what matters: the scramble to set standards for sustainable business, May 14 2021
5. Millani's ESG Sentiment Study of Canadian Institutional Investors, February 2021, Millani Inc.

Location matters

In 2020, the Financial Stability Board concluded that TCFD alignment of corporate disclosures varies across the 11 recommendations⁶. This result indicates that issuers are reporting on what they can, instead of trying to meet every recommendation. For example, in 2019, for the recommended disclosures related to the Strategy area: 41% elected to disclose information on climate-related risks and opportunities, 35% disclosed the impact on their organization, and only 7% described the resilience of their strategy to different climate scenarios.

Additionally, there is variation in how issuers align with different TCFD recommendations based on their geographic location. For example, issuers in EU are mostly aligned with the recommendation to describe the impact of climate change on strategy and financial planning (at 60%), while issuers in North America are mostly aligned with discussing climate risks and opportunities (at 50%). Different jurisdictions are subject to varying regulatory and market pressures on TCFD adoption, which explains certain geographic variations.

Breaking down the sectors

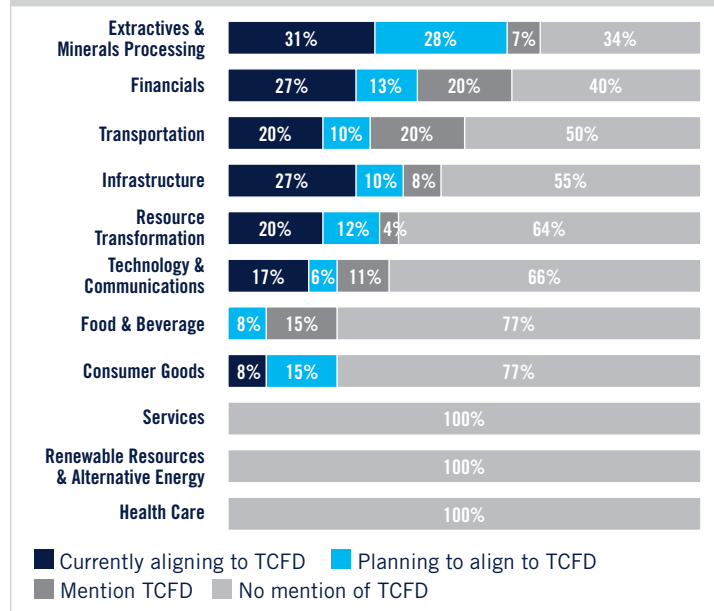
In Canada, the Extractives & Minerals Processing sector has the largest percentage of issuers that state they are either currently reporting or planning to report in alignment with TCFD, at 59%, followed by the Financials sector, at 40%. There were no TCFD-aligned reports found in the Health Care, Renewable Energy Resources & Alternative Energy, and Services sectors.

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Are TCFD reports meeting investor needs?

As part of the assessment, Millani evaluated the quality of reporting for each of the four TCFD areas (Governance, Strategy, Risk Management, Metrics & Targets) based on market knowledge of investor expectations around TCFD reporting. The results revealed that issuers stating that they report according to the TCFD recommendations do not always provide information that is considered useful by investors.

Figure 5
TCFD adoption by SASB/SICS sector



For example, the majority of companies listed on the S&P/TSX Composite Index are not effectively presenting information on how they are preparing to adjust for the Government of Canada's 45% GHG emissions reduction targets⁷, nor the carbon pricing schedule of \$170 per tonne by 2030⁸, nor the global developments around climate-related policy and physical risks.

Additionally, the 2021 proxy season voting trends indicate that investors not only expect disclosure of Scope 1 and 2 emissions targets, but increasingly of Scope 3 emissions, as shown by the recent Conoco Phillips shareholder proposal to set Scope 3 targets (approved by 58%)⁹.

While 90% of Canadian TCFD-aligned reports provided the most recent Scope 1 and 2 emissions, only 50% report on Scope 3 emissions, with no discernible emissions reporting boundaries amongst different issuers.

50% of issuers with TCFD-aligned disclosure report Scope 3 emissions

6. Task Force on Climate-related Financial Disclosures: 2020 Status Report, September 2020
7. Global News, Trudeau increases Canada's 2030 emissions target to 40-45%, April 2021
8. Global News, Canada's carbon price is increasing on April 1, March 2021
9. Reuters, ConocoPhillips shareholders back proposal to set Scope 3 targets, May 11 2021

Canadian issuers at risk of falling behind

From the analysis, it can be concluded that a sizeable majority of Canadian issuers are not currently meeting market demand for climate-related information. Considering that 60% of the world's 100 largest public companies support or report in line with the TCFD recommendations¹⁰, Canadian issuers are falling behind their global peers in TCFD-aligned reporting.

Millani believes that the more issuers delay alignment with TCFD recommendations, the more challenging it will become to keep up with financial market and regulatory expectations. Consequently, Canadian issuers, and their investors, are being exposed to growing risks from lack of disclosures.

Delaying alignment with TCFD recommendations will make it more challenging to meet investor and regulatory expectations

In Millani's semi-annual Canadian Institutional Investor Study in May/June 2021 (to be published shortly), we heard that investors would like issuers to begin aligning their reports with the TCFD recommendations, even if they are not in complete alignment with the framework. Within the investment community, it is generally accepted that if an issuer does not have sufficient information to align with all of the TCFD recommendations today, they should focus on partial disclosures. For those that have already started, continuing to demonstrate progress on TCFD reporting signals the company's commitments to developing a climate strategy.

As remarked by Tiff Macklem, the Governor of the Bank of Canada, "climate transition risks are often mispriced, and physical risks are generally underappreciated"¹¹. TCFD-aligned reporting is becoming the defacto framework for assessing these risks and opportunities. Proactivity will be key – issuers should not miss the chance to communicate and engage with their financial stakeholders on this important market topic.

What's next?

Look for Millani's next Canadian Institutional Investor Study, which will be published in July 2021, and Millani's Annual ESG Disclosure Study, to be published in September 2021.

Report methodology

Since 2016, Millani has been assessing the ESG and sustainability disclosures of S&P/TSX Composite Index constituents, providing insight and context to the research and identified trends. For this assessment, Millani collected ESG disclosures, annual reports, financial filings, and standalone TCFD reports produced by S&P / TSX Composite Index constituents that referenced the Task Force for Climate-related Disclosures. Reports were then assessed based on whether they provided a statement that the issuer aligned, planned to align, or mentioned the TCFD (documents were collected and analyzed in late April and May 2021). Reports that stated they were reporting according to TCFD were further analyzed based on Millani knowledge of TCFD disclosure quality. Given the timing of this analysis, the data does not reflect the full extent of TCFD reporting for the 2021 calendar year. An updated assessment is planned for Q4 2021.

About Millani

Millani provides advisory services on ESG integration to both investors and companies. For the past 13 years, Millani has become the partner of choice for institutional investors. By providing advisory services on integrating material ESG issues into their investment strategies and decision-making processes, we help our clients reduce risks, increase returns, and create value. Millani is also leveraging this expertise and its experience in ESG consulting to help reporting issuers improve their ESG disclosure to financial stakeholders and optimize their market value.

For more information, contact us at: info@millani.ca or visit our website: www.millani.ca

¹⁰. Task Force on Climate-related Financial Disclosures: 2020 Status Report, September 2020

¹¹. Tiff Macklem, Public Policy Panel Remarks, November 17 2020