ENVIRONMENTAL, SOCIAL, AND GOVERNANCE (ESG) POLICES ARE CHANGING THE WORLD OF BUSINESS AND INVESTMENT

UNIVERSITY OF TORONTO
FACULTY OF LAW

Future of Law Lab
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About the Future of Law Lab

The Future of Law Lab is a platform for students, academics, lawyers, and other professionals to participate in collaborative initiatives exploring how the law will evolve in the future. We will dive into the intersection of law, technology, innovation, and entrepreneurship, with programing dedicated to each of these streams. As a hub of interdisciplinary activity, we are dedicated to bringing together individuals from all backgrounds to examine the changing face of the legal profession.

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About the Climate Change Working Group

This report is written by Megan Corbett, Prarthna Kashyap, Theodore Ngo, and Harleen Sindhu, first year students at the University of Toronto Faculty of Law, under the supervision of Arifah Razack and Janice Fung, upper-year student leaders of the group.

The Working Group's objective is to catalogue the impact that climate change is having on various fields of law, as well as help policymakers determine how a climate-forward policy can be implemented at the organizational and institutional level.

Prepared by the Future of Law Lab's
Climate Change Working Group

Working Group Leaders

Arifah Razack and Janice Fung

Contributors

Megan Corbett, Prarthna Kashyap, Theodore Ngo, & Harleen Sindhu

University of Toronto Faculty of Law
Future of Law Lab Climate Change Group

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Created by: Megan Corbett, Prarthna Kashyap, Theodore Ngo, & Harleen Sindhu

<u>Research Question 2</u>: How Environmental, Social and Governance Policies are Changing the World of Business and Investments?

<u>Sub-question 2.1 & 2.2: Why are ESG policies becoming popular in businesses today? How have ESG policies improved or supported businesses in North America?</u>

Per McKinsey, across industries, companies are devoting more resources towards improving ESG (Pérez et al., 2022). Over 90% of S&P 500 companies have ESG policies in place, and some jurisdictions have already made ESG disclosure mandatory (Pérez et al., 2022). The question that this research seeks to explore is why. The approach taken by most corporations to ESG has undergone a significant evolution over the years. While initially implemented primarily for compliance or public relations reasons, strong ESG policies and disclosure practices now serve a myriad of other functions for organizations such as: increasing access to capital, fueling business growth, creating competitive advantage, cost reduction, attracting and retaining talent, and optimization of capital allocation and investments.

Accessing Capital:

According to a study published on the PRI (Principles for Responsible Investing) website (Sehoon Kim, 2022), the sustainable loans market has witnessed a significant rise in recent years. The study states that the global sustainable lending activity grew from almost $6 billion in 2016 to $322 billion in Sep 2021. For banks, such lending programs allow them to demonstrate their ESG credentials to investors, regulators, and other governmental authorities, and in turn; corporations benefit by being able to access large pools of capital at potentially lower spreads. Capital markets are also witnessing an increase in individual and institutional investors seeking ESG themed investments. As a result, many investment firms have now begun utilizing ESG based indices to measure and rank companies relative to their industry peers. It is therefore expected that capital will increasingly flow towards corporations that have an active ESG program, with PWC (Stanton, 2022) estimating that by 2026, ESG themed assets under management ("AuM") will reach $33.9 trillion (from $18.4 trillion in 2021).

Per a 2022 KPMG survey, over 80% of decision makers at over 500 midsize Canadian companies reported that their financial lenders and investors are increasingly asking them for information on their ESG strategy (Doron & Dunphy, 2022) According to a 2022 Morgan Stanley survey of global asset managers, over 80% of asset managers "already implement or plan to implement sustainable investing in all or part of their portfolios" (Morgan Stanley Institute for Sustainable Investing [Morgan Stanley], 2022). This interest in implementing ESG information in investing is reportedly growing, with 77% of global institutional investors reporting an increased interest in sustainable investing since May 2020 (Morgan Stanley, 2022). Of the strategies used by investment managers to account for ESG policies, ESG integration, in which ESG criteria are proactively considered alongside financial criteria, is one of the leading approaches (Morgan Stanley, 2022). This is in contrast to negative screening, whereby investments are removed from consideration if they exhibit ESG risk (Morgan Stanley, 2022). Asset owners are placing greater demands for ESG disclosure on asset managers, placing pressure in turn on organizations to provide that disclosure (Morgan Stanley, 2022). Per EY, even amid a turbulent investment landscape, funding continues to flow into ESG funds, and organizations with poor ESG scores may not make it into those funds, potentially reducing their access to capital (Bakor, 2014). Perhaps in response to this growing demand for accurate reporting of ESG impact, in 2022, the SEC proposed rule amendments that would require public companies to provide certain climate disclosures in annual reports and other documents (Deloitte, 2022), and further amendments which would require investment funds which claim to have an ESG impact to disclose the specific impacts they hope to achieve and to disclose the actual progress they make towards them (U.S. Securities and Exchange Commission, 2022)b. Required disclosures may also be coming to Canada. In 2022, the Canadian federal government also tabled a proposal to impose certain mandatory climate-related disclosures on federally regulated financial institutions like banks and insurers beginning in 2024 (Chell & Roberts, 2022b). This mandatory climate disclosure could potentially spread to other large organizations in Canada in the future. All this to say that being conscious of ESG and performing adequate disclosure are likely to become critical competencies for organizations seeking investment to grow their businesses.

Mandatory climate disclosures are not without controversy, however, especially regarding the potential costs they may create to reporting companies. It can be difficult to find objective information on this subject, as it is still a new topic. However, according to a 2022 survey of approximately 40 large U.S. private sector organizations by Environmental Resources Management (ERM), a reputable global sustainability consultancy, corporate issuers of climate disclosures with large market capitalizations are spending an average of over $500,000 annually on climate-related disclosure (Environmental Resources Management [ERM], 2022). Additionally, institutional investors are spending an average of over $1,300,000 annually to “collect, analyze, and report climate data to inform their investment decisions” (ERM, 2022). This poses an interesting question, which is what kind of breakeven will determine the point at which an organization begins to benefit from climate disclosure after, in effect, recouping the costs of disclosure, as long as disclosure is not mandatory. This question will be especially important in the context of smaller-scale businesses with fewer resources to devote to disclosure. Persefoni, a leading climate disclosure software company, states that it expects that costs of disclosure can drop once organizations use specifically-designed climate disclosure software, and expect that once more organizations participate in disclosure, economies of scale will allow those costs to drop further (ERM, 2022).

Accessing Growth Opportunities:

Internal benefits of strong ESG policies, per McKinsey, can include top-line growth, either through leveraging the ESG perspective to identify new product lines or service offerings or new customer segments (Henisz et al., 2019). By committing to reaching a certain emissions levels or incorporating diverse social perspectives in the company, for example, companies might be encouraged towards greater innovation in their offerings. In addition, a number of governmental authorities globally have also started to include ESG requirements within tenders as a prerequisite to award projects and as part of their procurement process. For instance, in 2021, the Biden Administration issued several executive orders aimed at addressing climate change and environmental issues through the federal procurement process (Thompson Hine, 2022).

Reduction of Costs:

According to a 2019 study by McKinsey (Henisz et al., 2019), effective execution of ESG strategies can help companies significantly reduce operating costs pertaining to items such as raw materials, water, and carbon, which make up for almost 60% of the total operating cost of some companies. As an example, in 2019, Amazon announced its climate pledge, per which Amazon sought to achieve a 100% renewable energy target by 2030 (this was accelerated to 2025 in a later announcement by Jeff Bezos) (www.aboutamazon.com, n.d.). As part of this program, Amazon commenced direct procurement of renewable energy for its Amazon.com and Amazon Web Services business divisions. The energy procurement, as part of this initiative, is done through corporate power purchase agreements; structured as contracts for difference ("CFDs"), allowing Amazon to benefit from low solar/wind energy prices in a high commodity price environment. Amazon also acquired a 18% stake in Rivian (an electric vehicles "EV" manufacturer) and is expected to fully convert its delivery fleet to EVs by 2030 (www.aboutamazon.com, n.d.). From an operating cost perspective, this is expected to help Amazon lower its fleet maintenance costs, which are higher for combustion engine vehicles in comparison to EVs.

Attracting and Retaining Talent:

A study by MarshMcLennan (Bailey et al., 2020.) states that by 2029, 72% of the workforce will comprise Millennial and Gen Z workers, who place a greater importance on environmental and social concerns and expect their employers to have supporting policies in place. The study also found that employers that were top ranked by their employees (in terms of employee satisfaction and attractiveness to talent) had significantly higher ESG scores than their peer group and concluded that companies focused on their ESG performance were more likely than their peers to be able to attract enthusiastic prospective employers that would not just strengthen the company's talent pipeline but would also ensure availability of crucial human capital in the long run.

Optimization of Capital Allocation and Investments:

Per McKinsey (Henisz et al., 2019), companies with an active ESG program can also enhance investment returns by allocating capital to opportunities that are sustainable and more promising (example: renewables etc.) and avoid stranded investments in areas that are likely to be at the receiving end of lack of support from ESG minded investors or push back from regulators due to ESG focussed regulatory changes.

Minimization of Compliance and Litigation Risk:

An article by MLT Akins noted that 1800 ESG related litigation cases were filed in 40 countries between 2017 to 2020 (Chell & Roberts, 2022a). This number is expected to further rise with introduction of new ESG focussed regulations and as consumers/customers become more ESG minded. Therefore, it would serve companies well to proactively become ESG minded and implement suitable strategies, in the absence of which they could potentially become targets of expensive litigation which could have a significant impact on their brand value and profitability and in some extreme cases may even lead to the loss of license to operate.

Summary

There certainly seem to be benefits that having strong ESG policies can bring to organizations that use them. Having strong ESG policies can potentially drive productivity, drive top-line growth, cut costs, and help companies access capital, among other benefits. The question that remains is the extent to which the proliferation of ESG policies have actually benefited the environment and society. The primary challenge that can be noticed here is that many current ESG standards do not measure the negative or positive impact an organization has on the world, but rather measure how well the organization could adapt to a changing world, especially a world increasingly affected by climate change (Pucker & King, 2022)(Cho, 2022). Thus many ESG measures are not used to reward stewardship but rather to evade the effects of the negative consequences of the problems that ESG policies purportedly aim to remedy. As a result, tackling environmental and social problems may be outside the reach of the free market alone even with ESG disclosures, and may require further legislation or consumer activism.

<u>Sub-question 2.3: What are some examples of impactful environmental policies?</u>

The rise in focus by consumers and regulators on climate change and prevention of environmental degradation has meant that corporations are now adopting a more proactive approach in developing and deploying environmental policies as part of their overall ESG toolkit. Earlier, environmental policies were geared more towards ensuring compliance with existing regulations and were therefore, somewhat limited in scope and primarily targeted objectives such as control of industrial waste and emissions. However, now corporations are increasingly taking a holistic view and implementing environmental policies that influence all aspects of their value chain, starting from procurement of raw materials to supply of finished goods and services to the end consumer.

Following are some examples of impactful environmental policies adopted by global corporations, in the wake of the rise in focus on ESG:

Emissions Control:

There is an increase in the number of companies adopting suitable measures to reduce their operational emissions footprint. With the introduction of Greenhouse Gas (“GHG”) protocols, many companies have also introduced time bound targets for minimizing Scope I, II and III emissions by announcing a number of net zero carbon initiatives, such as push for more renewable energy ("RE") usage, carbon capture and storage (CSU) etc. An example of one of such initiatives is the RE100 program (there100.org, n.d.). There are approx. 380 global members participating in this program, many of which are also part of the SP100 index such as Google, Apple etc. Through this program, each of the participating companies have agreed to achieve a 100% renewable energy target by 2050, with some of the participants even committing to accelerating the goal to 2030. To achieve the target the participating companies are not just directly procuring renewable energy and renewable energy certificates ("RECs") but are also developing and co-investing in dedicated renewable energy capacity. In 2021, the tech sector comprising Amazon, Microsoft and Meta became one of the highest procurers of renewable energy, as part of their RE target.(Miller, 2022)

Waste Reduction:

Another way through which companies are trying to reduce their impact on the environment is to adopt manufacturing and operations procedures to minimize waste. Some companies have announced measures to cut down on paper waste. Many others such as Hewlett-Packard are focusing on reducing toxic substances within their manufacturing process and implementing aggressive recycling programs to reduce their overall waste footprint. Other examples include Johnson and Johnson and Amazon who are focusing on using sustainable packaging materials for their products.(Lawson, n.d.)

Increasing Energy Efficiency:

Companies both within the manufacturing and services sector have also started to implement programs focused on increasing energy efficiency, as part of their ESG deliverables. Within the manufacturing setting, many companies are reassessing their processes and equipment to minimize their energy footprint. Other initiatives include improving energy efficiency of office buildings by adopting measures such as usage of LED lights, opting for suitable ventilation and insulation controls etc. An example includes the 'green store' concept introduced by Starbuck. As part of this concept, Starbuck uses green building strategies such as maintaining ambient store temperatures at 72 degrees to 75 degrees F, utilizing cabinetry using 90% postindustrial materials, incorporating low-flow water valves and LED lights, to minimize its energy footprint and increase energy efficiency.(Lawson, n.d.)

Sustainable Supply Chain Initiatives:

Companies are also increasingly focusing on choosing supply chain partners offering sustainable products and solutions, with many including demonstration of sustainability as a key qualifying criterion for their procurement process. Such steps not only help companies meet specific regulatory requirements but can also add value by helping companies successfully obtain their sustainability and CSR certifications such as Global Reporting Initiative ("GRI") or B Corp, which in turn can help access cheaper capital and/or other benefits. An example of one such initiative can be seen at Nike, which is currently focusing on working with suppliers of environmentally sustainable materials such as recycled polyester and has also pressed 650 of its suppliers in 52 countries to develop and implement sustainable environmental policies. (Lawson, n.d.)

Fostering Green Technology Development:

Another emerging trend is the direct investment by companies in research & development and commercialization of sustainable technologies, as part of their ESG deliverable. For example, the Oil & Gas Major Shell Inc has an internal venture capital business that provides equity funding for Clean Tech solutions such as produced water treatment technologies (that can enable re-use of water produced during oil and gas production), solar steam production (to minimize the usage of gas for enhanced oil recovery) etc (Shell Ventures, n.d.). Elsewhere, Boeing together with Avolon and other industry partners is funding a study on sustainable aviation fuels. The study will also identify market level opportunities for an investable commercial-scale sustainable aviation fuel production facility in Ireland, and is expected to be completed in 2023. (Avolon, 2022)

With 83% of consumers wanting companies to actively pursue ESG best practices (Atkins, 2022) there is an increasing pressure on companies to demonstrate that they are taking initiatives to pursue ESG strategies that are demonstrable and devoid of any attempts to Greenwash (a practice of using marketing and PR tactics to amplify ESG efforts for purposes of gaining greater favor from investors, consumers, employees and other relevant stakeholder groups (Atkins, 2022)). Many regulatory authorities have also stepped up and introduced regulatory measures to prevent companies making exaggerated claims about their ESG credentials. For instance, in Canada, the federal Competition Act, Textile Labeling Act and Consumer Packaging and Labeling act prohibit companies from making false or misleading representations to consumers. Canada's Trademark's act also prohibits manufacturers from making any materially false and misleading statements about the geographical origins, quality, quantity and composition of their products. The Canadian Code of Advertising Standards also contain prohibitions on advertisements containing misleading claims, statements, and illustrations. (Kate Hawkins, 2022)

<u>Research Question 4</u>: What are the Proposed Climate Disclosure Rules in the United States and Canada?

<u>Sub-question 4.1a: How and why were these rules developed? (Canada)</u>

Climate-related risks have begun to concern company stakeholders (Bakker et al., 2021). In turn, companies have begun reporting the relevant information, and several different groups have created separate frameworks for this type of disclosure (Bakker et al., 2021). However, the existing climate-related disclosure had not been uniform across companies, and investors have expressed a desire for uniform climate disclosure that could be compared across companies (Bakker et al., 2021; Canadian Securities Administrators [CSA], 2021). Further, the existing climate-related disclosure could be selective, and it was not always quantitative (Struthers et al., 2021).

Therefore, the CSA's Climate Disclosure Rules created uniform disclosure requirements so that investors could have the necessary climate-related information when investing (Struthers et al., 2021). Further, this benefits companies because following one uniform set of climate disclosure rules is less expensive than the earlier practice of following several different sets of climate disclosure rules (Struthers et al., 2021).

The TCFD guidelines were the foundation behind the CSA's Climate Disclosure Rules (Bakker et al., 2021; CSA, 2021). The CSA's Climate Disclosure Rules were also made using previous CSA work, and stakeholder input (CSA, 2021). Furthermore, the CSA is considering other climate disclosure rules such as those from the ISSB and SEC, and their corresponding feedback (Canadian Securities Administrators [CSA], 2022).

<u>Sub-question 4.1b: How and why were these rules developed? (USA)</u>

Similar to the Canadian situation, the SEC's Climate Disclosure Rules were created because both investors and companies take on financial risks from climate change (Dewy, 2022). Climate disclosure is something that investors want when choosing whether or not to invest in a company, and the SEC's Climate Disclosure Rules create uniform climate-related disclosures that can be compared between companies (Dewy, 2022; U.S. Securities and Exchange Commission [SEC], 2022a).

The SEC used the Greenhouse Gas Protocol and the TCFD guidelines to create their Climate Disclosure Rules (Diamond et al., 2022).

<u>Sub-question 4.2a: What needs to be reported? (Canada)</u>

To begin, companies now need to report Scope 1-3 GHG emissions, and if they do not, a justification for the non-disclosure is needed (Bakker et al., 2021). Moreover, the standard employed for determining GHG emissions as well as the risks connected to the GHG emissions must be reported (Bakker et al., 2021).

Next, companies must now disclose the current fulfillment of their climate-related targets, and the targets themselves (Bakker et al., 2021). They will also need to disclose their climate-related metrics (Bakker et al., 2021). However, the disclosure here is only limited to material disclosure (Bakker et al., 2021).

Furthermore, companies will need to disclose how certain governing structures such as boards are involved with climate issues (Bakker et al., 2021). Also, companies must now disclose how climate-related risks will be spotted, evaluated, and dealt with (Bakker et al., 2021). Moreover, they will need to disclose how their broader methods for dealing with risk relates to this plan (Bakker et al., 2021).

Finally, companies will need to identify, for multiple time scales, the opportunities arising from climate issues and the corresponding risks, as well as how they will affect factors such as strategy (Bakker et al., 2021). Again, disclosure in this area will be limited by materiality (Bakker et al., 2021).

Sub-question 4.2b: What needs to be reported? (USA)

Similar to Canada, companies must now report Scope 1 and 2 GHG emissions (SEC, 2022a). Also, when part of a target or when material, Scope 3 GHG emissions need to be reported (SEC, 2022a). Furthermore, details about items such as Renewable Energy Certificates will need to be reported when they are used by a company in their method for decreasing emissions (Diamond et al., 2022).

When material, companies need to report how their finances and business will be influenced by climate-related risks across multiple time scales (SEC, 2022a). Companies will need to also consider how the approximations their finances are based on and the finances themselves will be influenced by accommodations they make because of climate issues (Diamond et al., 2022; SEC, 2022a). Moreover, companies will need to report how elements such as strategy will be influenced by climate-related risks (SEC, 2022a). Similar to Canada, companies will also need to report their planned methods for dealing with climate-related risk (SEC, 2022a).

Finally, companies need to report details regarding climate goals such as progress and timelines when climate goals are employed by the company (U.S. Securities and Exchange Commission [SEC], n.d.).

Sub-question 4.3: What penalties may arise from failure to meet disclosure requirements?

If a business fails to meet CSA's disclosure requirements, they can face large fines, lawsuits and injunctions. These are the standard types of penalties that arise from any mandatory government-based actions (Erlichman, 2021). However, with increasing concern about climate change by the public, and a general social movement towards sustainability, an organization that fails to meet these disclosure requirements could also face more than just legal and financial penalties (Dennis & Taylor, 2021). Not only would this be a missed opportunity for the business to analyze trends that could only help them identify areas at risk for damage through climate related impact and save future costs, but this could also lead to reputational and brand harm. Potential customers may not want to support an organization that does not take climate change and its impacts seriously which itself could lead to financial harm. Moreover, additional regulatory scrutiny is also a possible penalty as climate disclosure requirements may be more closely monitored (CPAC, 2017).

Sub-question 4.4: Compare and contrast the climate disclosure requirements between the States and Canada

Category	Canada (CSA)	USA (SEC)	Comparing
Governance	Description of the board of directors' oversight of climate-related risks and opportunities.	Description of the board of director's oversight of climate-related risks. This section also requires the	The SEC, in its requirements, specifically identifies board members and

	Description of the management's role in assessing and managing climate-related risks and opportunities. "Governance" is not subject to a materiality assessment. Accordingly, issuers must provide this disclosure in the applicable continuous disclosure document as required by the Instrument.	identity of any board members responsible for the oversight of climate related risks, whether any of them have expertise in this matter, the process in which these risks are discussed (how the board is informed), and how the board sets goals and observes their progress. The organization may also describe the board of director's oversight of climate-related opportunities. Description of management's role in assessing and managing climate-related risks. Include the following, as applicable. This section is also subject to similar requirements from above.	committees that are responsible for climate change related work which could work as an incentive for the company. The CSA's requirements do not have this incentive.
Strategy	Requires disclosure of the actual and potential impacts of climate-related risks and opportunities on the organization's 1) businesses, 2) strategy, and 3) financial planning, where such information is material. Information is likely material if a reasonable investor's decision on whether to buy, sell or hold securities in an issuer would likely be influenced or changed if the information in question was omitted or misstated.	Requires description of any climate-related risks reasonably likely to have a material impact on the organization, including on its business or consolidated financial statements, which may manifest over the short, medium, and long term. If applicable, an organization may also disclose the actual and potential impacts of any climate-related opportunities. Specification is required for whether the risks are physical or transition, and their nature. For physical risks, disclosure of details about the properties, processes or	The disclosure requirements within this section are very similar for both countries. The CSA requires disclosure of risks and opportunities whereas the SEC only requires risks and impacts. Disclosure of opportunities is up to the discretion of the organization. However, the CSA's requirement of this information is based on materiality whereas the SEC's requirement is not. Strategy planning related to the climate risks and opportunities is an important enough

		operation that are subject to the risk are also required. If the risk is flooding, percentage of flood hazard areas is required. For transition risks, description of how the risk is related to several factors is required, as well as a definition of the time spans of short, medium and long-term timespans. Impacts on suppliers, products and services, and location of operations is included in this section. Moreover, disclosure also requires description of the activities that can mitigate or adapt to the climate risks and their associated expenses.	section to be required irrespective of materiality. This purpose of disclosure requirements is not only for the public, but also an opportunity for the organization to identify its risks and plan ahead. A required strategy section is essential for that purpose. The SEC has significantly more detail describing what is required for different types of risks. Moreover, the SEC requires a future scenario analysis, whereas the CSA does not. A future scenario analysis can be helpful for an organization in identifying future problem areas and mitigating those risks early.
Risk Management	Description of the organization's processes for identifying and assessing climate-related risks. Disclosure of the organization's processes for managing climate-related risks. Description of the processes used for identifying, assessing, and managing climate-related risks are integrated into the issuer's overall risk management	Description of any processes the organization has for identifying, assessing, and managing climate-related risks. If applicable, an organization may also describe any processes for identifying, assessing, and managing climate-related opportunities. The organization must also: 1) describe how the climate risks compare in significance to other risks 2) consider regulatory requirements and policies	The overarching requirements between the two countries are the same. The SEC requires and specifies a lot more detail than the CSA in this section. For example, the SEC requires consideration of external environment changes too like customer preferences, technology etc. that all impact how the company manages

	“Risk management” disclosure is not subject to a materiality assessment. Accordingly, organizations must provide this disclosure in the applicable continuous disclosure document as required by the Instrument.	3) consider market shifts (ex. customer preferences, technological changes, etc.) 4) determine the materiality of the risks Disclosure of whether any processes are integrated into the organization’s overall risk management system. When describing relevant processes to the risk, the organization is also required to disclose whether they are mitigating, accepting or adapting to the risks, and how they are prioritizing the risks.	risks. This can be useful in preparation and management of these risks. The CSA does not have this. Moreover, the SEC also requires a materiality assessment which Canada does not require. Organizations are often encouraged to err on the side of caution with materiality assessments, but not having one leads to less confusion.
Metrics and Target Disclosures	Disclosure of the metrics used by the issuer to assess climate-related risks and opportunities in line with its strategy and risk management process. Description of the targets used by the issuer to manage climate-related risks and opportunities and the issuer’s performance against these targets. Disclosure under this section is only required where such information is material. Information is likely material if a reasonable investor’s decision on whether to buy, sell or hold securities in an issuer would likely be influenced or changed if the information in question was omitted or misstated.	Description of how each specific metric was derived, the assumptions used, and any policy decision made to calculate the metrics is required. The organization must also disclose the impact of severe weather events on any relevant items on financial statements. Disclosure of the impact of any efforts to reduce GHG emissions on financial statements is also required. This section also requires the organization to disclose any expenses related to mitigating risks from severe weather events and transition activities. Moreover, any impact to financial estimates and assumptions caused by the above events or activities is also required. All negative impacts and positive impacts (on a	The CSA only requires this section if the information is material. The SEC requires this information irrespective of how material the risk or impact is. As stated above, for disclosure purposes and less public and company confusion, it is always better to have a disclosure requirement. Once again, the SEC has provided a significant amount of more detail for what is required under this section, and aids to help the organization report the most useful information. The SEC also requires more from the organization than the CSA does. Description of how any

		line-by-line basis for the financial statement) must be disclosed for all of the above requirements. Several examples of these impacts are provided.	specific metric has been derived is helpful for public knowledge and laymen who may not have the relevant knowledge for the organization's practices. Moreover, for comparison purposes, it is also important to understand how a metric has been devised. The CSA does not require this. It is also helpful for the organization itself to understand expenses related to climate risks. This aids in long-term planning and budgetary organization. This is, again, not a requirement under the CSA.
GHG Emissions	Disclosure of the following is required: 1) the organization's Scope 1 GHG emissions and the related risks, or the organization's reasons for not disclosing this information 2) the organization's Scope 2 GHG emissions and the related risks, or the organization's reasons for not disclosing this information, and 3) the organization's Scope 3 GHG emissions and the related risks, or the organization's reasons for not disclosing this information.	General: Disclosure of GHG emissions for the most recently completed fiscal year, and all previous years where emissions data is reasonably available is required. Disclosure of Scope 1, 2, and 3 emissions exclude the impact of any purchased or generated offsets. Disclosure of all Scope 1 and 2 emissions within the organization's organizational and operational boundaries is required. Disclosure of Scope 3	The SEC requires GHG emissions data whereas the CSA allows the organization to not include the data as long as they explain why they chose not to disclose. One of the reasons for choosing not to disclose could be the unavailability of the data, however the SEC's requirements solve this problem by requiring reasonable estimates. A reasonable estimate is always better than no data at all. In most areas of all of the

	The organization must use a GHG emissions reporting standard to calculate and report its GHG emissions. A GHG emissions reporting standard is the GHG Protocol or a standard comparable to it. Description of the targets used by the organization to manage climate related risks and opportunities and the issuer's performance against these targets.	emissions is only required if material or if the organization has set a GHG emissions reduction target that includes Scope 3 emissions. Scope 2 emissions also require description of the data sources used to calculate it. An organization must also describe the methodology, significant inputs, and significant assumptions used to calculate its GHG emissions. An organization must also disclose and describe any gaps in their data Disclosure of any targets or goals related to the reduction of GHG emissions, or any other climate-related target or goal. Several examples of details that can be included with the goals are provided.	disclosure sections, the SEC requires more from its organization and provides more guidance in disclosure. As mandatory climate disclosure is a completely new movement, this type of detailed guidance can be helpful to organizations, especially small businesses that may not have the specialized personnel or any experience doing this type of disclosure. The CSA requiring a recognized GHG emissions reporting standard is helpful for consistency across all organizations. The SEC does not have this requirement.

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