10 June 2024

Financial Reporting & Assurance Standards Canada
Canadian Sustainability Standards Board

Submitted online: www.frascanada.ca

Sir / Madam,

Consultation on Proposed Canadian Sustainability Disclosure Standards (CSDS) 1 - General Requirements for Disclosure of Sustainability-related Financial Information and Proposed Canadian Sustainability Disclosure Standard (CSDS) 2 - Climate-related Disclosures.

MSCI[1] welcomes the opportunity to comment on the CSSB Exposure Drafts – Proposed Canadian Sustainability Disclosure Standards ("Exposure Drafts"). As a leading provider of climate risk data and analytics to the global investment community, MSCI has collected climate and sustainability-related disclosures from thousands of companies globally for over two decades and developed tools to assist investors in their analysis of climate and ESG risk to their portfolios.

MSCI supports the publication by the Canadian Sustainability Standards Board (the "CSSB") of Exposure Drafts which shall lead to availability of consistent, comparable, and timely information on sustainability matters and climate risks facing companies.

For the purposes of this submission, we comment specifically on those matters where we believe MSCI's expertise and experience to be most relevant. As a provider of ESG and climate risk data and analytics, we would like to highlight the following key points:

1. **Transition relief of CSDS -** We welcome the adoption of CSDS-1, in line with the proposed IFRS S1 General Requirements for Disclosure of Sustainability-related Financial Information (IFRS S1)[2], instead of the proposed two-year transition period. An early implementation timeline aligning with IFRS S1 would ensure consistency and comparability for Canadian entities with counterparts in global markets. CSDS-1's foundation, structured around the Taskforce on Climate-related Financial Disclosures' (TCFD) four pillars[3], provides a clear and comprehensive approach to climate-related financial disclosures, aiding entities in navigating sustainability complexities. Clear guidelines and a structured approach support accurate and consistent application of the standard, benefiting entities of all sizes, including SMEs, and promote transparency and reliability in disclosed information.

[1] MSCI ESG Ratings, research and data are produced by MSCI ESG Research LLC, a subsidiary of MSCI Inc.
[2] IFRS S1 General Requirements for Disclosure of Sustainability-related Financial Information (IFRS, June 2023)
[3] Task Force on Climate-Related Financial Disclosures (TCFD, June 2017)

2. **Alignment of disclosure timelines with financial disclosures and timely release of comparative information -** As a user of sustainability data, we welcome the alignment of the timing of disclosure of sustainability data along with the financial data. However, the preparers are better placed to provide comments on any difficulties in aligning with the timelines of financial disclosures. We support the timely release of comparative information, aligned with the requirements under the ISSB standards, as this would enable investors and stakeholders to more effectively gauge the climate and sustainability-related progress of their portfolio entities.

3. **Climate scenario analysis and guidelines –** Climate scenario analysis is an important tool for examining how future changes in the climate could impact companies' business models, value chains and resilience. For this reason, we believe that a transition relief for climate resilience assessments should not be granted, while simultaneously acknowledging the importance of a proportionality approach, especially for smaller companies. We are supportive of scenario analysis guidance from the TCFD[4] ,[5] as these documents highlight a step-by-step guide on how disclosing entities could get started in applying scenario analysis, acknowledging the importance of key principles such as transparency, comparability of results, consistency of methodology and adequate documentation.

4. **The use of high-temperature scenarios to be encouraged –** According to the ISSB standard, disclosing entities must report whether their analysis includes a diverse range of climate-related scenarios, including one that aligns with the latest international agreement on climate change. MSCI provides a wide range of scenarios in line with the Network for Greening the Financial System (NGFS). Additionally, to better understand the evolving nature of climate-related financial risks, we recommend that disclosing entities include a high-temperature scenario in their analysis, such as the NGFS's 3°C scenario or an equivalent. This approach will help evaluate the most severe impacts of physical climate-related risks, including chronic and acute hazards from wildfires, floods, and extreme heat (non-exhaustive).

5. **Scope 3 Emissions reporting –** The proposed two-year transition relief for Scope 3 GHG emissions disclosures may be too long and could hinder comparability with companies that have already adopted IFRS S2 Climate-related Disclosures (IFRS S2)[6]. We feel that a transition relief period of one year, in line with the ISSB standards, would be more appropriate as this timeframe balances the need for companies to develop the necessary skills and processes with the urgency of providing critical information for assessing climate-related risks. Since Scope 3 emissions often constitute the largest share of a company's carbon footprint[7] and represent significant transition risks, it is crucial to encourage companies to start reporting these emissions sooner. Prompt reporting of material Scope 3 emissions is essential not only for comparability but also for driving upstream and downstream value chain improvements. Many companies are already beginning to address Scope 3 emissions, and an earlier reporting requirement could leverage and build on these efforts. Additionally, target setting on Scope 3 emissions is lagging, so encouraging companies to get started with Scope 3 reporting is important for comprehensive climate risk management (See Exhibit 1 in Annex).

6. **Financed emissions disclosures** in the financial sector are now on the rise and availability of data is no longer a major obstacle. Based on MSCI's research focusing on systemically important banks, we have found that 79% disclosed financed emissions as of January 2024, a significant improvement from 2022 (41%), with most of the banks using the PCAF methodology based on the GHG Protocol.[8] (See Exhibit 2 in Annex.) The comparability of financed emissions reporting could be further enhanced with a detailed sector-level breakdown wherever possible, and reporting gross absolute emissions disaggregated by

4 Technical Supplement: The Use of Scenario Analysis in Disclosure of Climate-related Risks and Opportunities (TCFD, June 2017)
5 Guidance on Scenario Analysis for Non-Financial Companies (TCFD, October 2020)
6 IFRS S2 Climate-related Disclosures (IFRS, June 2023)
7 Breaking Down Corporate Net-Zero Climate Targets, K. Watanabe and A. Panagiotopoulos, MSCI (MSCI, May 2021)
8 G-SIBs Financed Emissions, C. Wang and A. Liang (MSCI, April 2024)

Scopes 1, 2, and 3. To facilitate comparisons between financial institutions of varying sizes, disclosure of the gross financed emissions intensity could also be recommended.

7. **Mandatory disclosure of cross-industry metrics –** MSCI research shows that at present, many jurisdictions do not yet require companies to disclose information across all the TCFD cross-industry metrics, thereby limiting the quantity and quality of decision-useful information for investors and other users of climate data. Disclosure of cross-industry metrics helps investors understand their portfolio exposure to physical risks, transition risks and climate-related opportunities and enables them to predict the future impact of such exposures. Investors need information on how portfolio companies are financing their transition plans and the amount allocated to predict future financial performance, financial position, and cash flows. Investors need information on internal carbon prices applied by companies to assess their management of climate-related risks and opportunities and the planned use of carbon credits to meet climate targets. This core set of cross-industry metrics shall provide a common set of consistent and comparable climate-related disclosures applicable across sectors and industries. In 2021, the TCFD recommended all organizations disclose data across seven cross-industry metrics categories. Therefore, we recommend that CSSB mandates disclosure of the TCFD cross-industry metrics.

8. **Indigenous people in Canada and their rights –** We recognize the importance of indigenous peoples in Canada and the imperative to safeguard their rights. Therefore, it is crucial to evaluate how companies' activities in protected areas intersect with indigenous territories. We propose that companies conduct assessments of environmental and financial impacts on biodiversity and nature risks in indigenous territories based on their operations. Such an approach could draw insights from the recommendations of the Taskforce on Nature-related Financial Disclosures (TNFD). MSCI's Geospatial Biodiversity Solution is aligned with the TNFD and encompasses over one million location-specific asset data points for over 70,000 companies globally. This solution evaluates corporate assets situated in nature-protected areas and assesses whether their operations contribute to biodiversity loss. We would be delighted to support the CSSB in its further work on this issue as part of a multi-year plan.

Please do not hesitate to contact us to discuss our submission.

Yours sincerely,

/s
Meggin Thwing Eastman
Managing Director, ESG Research
MSCI ESG Research LLC

Exhibit 1 – Breaking Down carbon emissions and corporate net-zero targets by scopes[9]

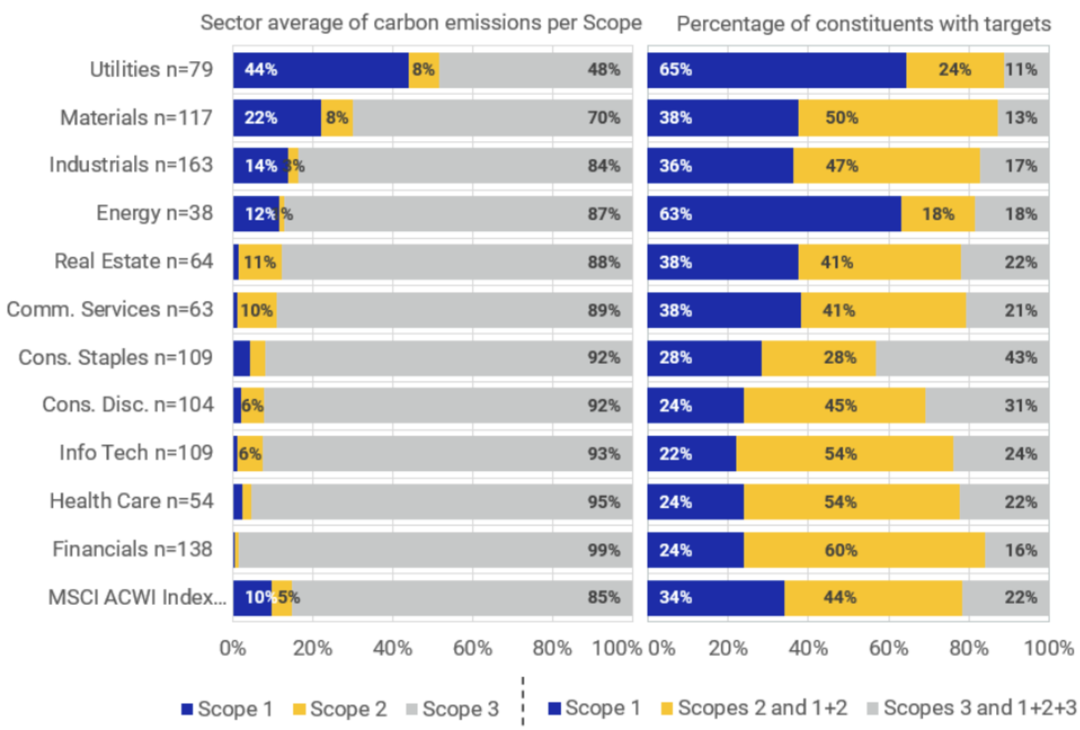
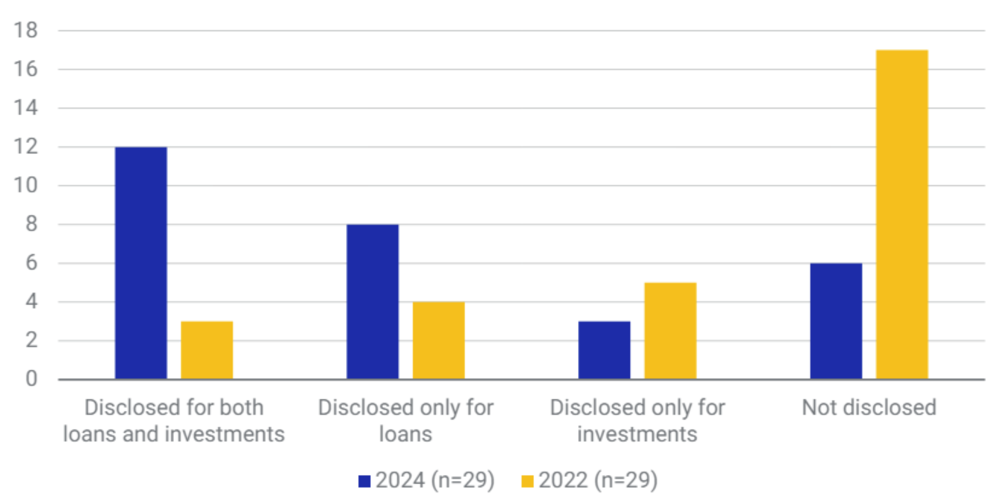


Exhibit 2 – Financed emissions disclosures by global systemically important banks[10]



[9] Breaking Down Corporate Net-Zero Climate Targets, K. Watanabe and A. Panagiotopoulos (MSCI, May 2021)
[10] G-SIBs Financed Emissions, C. Wang and A. Liang (MSCI, April 2024)