April 30, 2016
Financial Stability Board Task Force on Climate-Related Financial Disclosures
Secretariat to the Financial Stability Board
Bank for International Settlements
Centralbahnplatz 2
CH-4002 Basel
Switzerland

Sent by email to: info@fsb-tcfd.org

Re: Comments on the Task Force on Climate-Related Financial Disclosure's Phase II Questions

We are writing to offer our comments on the Phase II consultation of the Financial Stability Board's (FSB) Task Force on Climate-Related Financial Disclosures (Task Force). Thank you for the opportunity to provide comments and we commend the FSB for the creation of the Task Force and for undertaking a substantive engagement with stakeholders on this issue. Climate change disclosure is a material concern for investors and we anticipate that the Task Force's final recommendations will be an important contribution to efforts to mitigate the systemic risks that climate change brings to the financial system.

With approximately C$6.0 billion in assets under management (AUM), NEI Investments' approach to investing incorporates the thesis that companies integrating best environmental, social and governance (ESG) practices into their strategy and operations will build long-term sustainable value for all stakeholders, and provide higher risk-adjusted returns to shareholders.

We believe that mitigating the risks of climate change should be an imperative for all investors regardless of what part of the economy they are invested in. Climate change is one of the greatest threats facing the planet and consequently the global economy. Investors who are concerned about long-term financial returns face significant risks from climate-related impacts. We believe that enhanced disclosure by companies and investors will be critical to the success of efforts to mitigate these impacts and offer the following comments in that context.

Specific Commentary on Phase II Consultation Questions

The Task Force has developed a robust set of questions that we believe touch on the most material issues in relation to climate-related financial disclosures. Our responses are numbered in accordance with the questions posed in the Phase I report.

Question 1

Types of non-financial firms that should be covered by disclosure recommendations (listed in order of importance)

- Energy (equipment, services, oil, gas, etc.)
- Utilities (electric, gas, renewables, water)

- Materials (chemicals, construction, metals & mining, paper & forest, etc.)
- Industrials (capital goods, commercial services, transport)
- Consumer Discretionary (auto, durables, retailing, etc.)
- Consumer Staples (food, beverage, household, etc.)
- Information Technology (semiconductors, software, hardware, etc.)
- Telecommunications (diversified, wireless, etc.)
- Health Care (equipment, services, pharma, biotech, etc.)

We would further note that no sector is free of risks (or opportunities) in relation to climate change. Some of these sectors may be particularly exposed to climate risks through their supply chains, though not necessarily through their direct business impacts. We believe this reflects the need to have a gradient of expectation across sectors that recognizes the specific context of climate risk for each sector.

Question 2

Types of financial firms that disclosure recommendations should cover

- Banks (diversified, thrifts, mortgage, etc.)
- Diversified Financials (asset management, investment banking/broker-dealer, consumer)
- Insurance (brokers, multi-line, property, reinsurance, etc.)
- Real Estate (REITS, management and development)
- Credit Rating Agencies
- Pension Funds/Schemes

Question 3

Users in the financial sector that should be considered the target audience

- Investors (including insurance, asset managers, funds, pensions, etc.)
- Banks (diversified, commercial, project finance)
- Broker-Dealers and Investment Banks
- Credit Rating Agencies

We would further note that while we believe consultants will be a key user of this disclosure, we believe their needs will not differ from those of their clientele and as such don't list them as a target audience. Fundamentally, the target audience for disclosure should be those actors that are tasked with making capital allocation decisions that impact the financial system.

Question 5

While it is difficult to find five specific points of information that are equally material to all sectors, we can identify five pieces of information that we believe are either relevant to all sectors or so material to specific key sectors (e.g. the energy sector) as to be considered crucial. We list them below.

1. **Company strategy for mitigating the risks of climate change**. This is the key piece of information that we believe is material to every sector. This should be in a narrative form and should provide details on any concrete strategies the company employs to mitigate risks and

NEI INVESTMENTS
505 – 1111 West Georgia Street | Vancouver, B.C. | V6E 4M3
T: 604.633.0615 F: 604.633.0619 TF: 1.866.888.0615
www.NEIinvestments.com
Northwest & Ethical Investments L.P. acting through its general partner Northwest & Ethical Investments Inc.

identify opportunities, including a discussion of any targets or objectives the company has set in relation to the issue. It would ideally address both short and long-term strategies and, at a high level, detail the company's assessment of its strategic resilience to a low carbon economy. This metric may not be quantifiable but we believe that not all climate-related disclosure need or should be quantifiable. The strategic orientation of the company is a fundamental piece of information that we actively incorporate into our final investment decision for those sectors most exposed to climate risks.

2. **Responsibility for climate change within the company.** This will also be in narrative form and should detail company oversight of climate change issues. This would include a discussion of the board's oversight role, senior management ultimately responsible for performance, whether the company ties compensation to performance against specific climate related objectives, and whether the company has specific staff responsible for managing the issue.
3. **Absolute and Intensity Metrics for Greenhouse Gas Emissions (GHGs**). Fundamentally, investors need to have measurable data on the actual GHG footprint of the companies they invest in. Current data on emissions is spotty and not standardized. Perhaps most importantly, not all companies provide intensity disclosures (e.g. tonnes CO2 per barrel of oil equivalent) and investors are left to estimate these on their own. Having a standardized intensity measurement for various sectors would be very useful.
4. **Carbon price scenario planning.** This is a piece of information that is currently underreported yet would provide investors with material information. Specifically, we refer to the practice of utilizing a "shadow price on carbon" against internal decisions on capital expenditures. This would ideally incorporate disclosure of the range of prices used in the scenario planning (e.g. $15 - $70 per tonne of CO2e), discussion of how this information feeds into capital spending decisions, and a broad discussion of the materiality of the impacts of a price on carbon on the business. Essentially, we are looking for evidence that the company is stress-testing its long-term projects against the backdrop of a steadily rising price on carbon. Note that this should not be confused with asking the company to project what the price on carbon itself will be. Rather, we want to know the resilience of the company against a plausible range of carbon prices.
5. **Climate-related public policy and lobbying positions.** In the near-term, one of the biggest impediments to the adoption of robust climate change regulations is the active lobbying of individual companies and industry associations against the adoption of credible climate change legislation. While some sectors may benefit from the stalling or elimination of regulatory action on climate change in the near to mid-term, ultimately all sectors will experience negative impacts from unmitigated climate change. As such, any action taken by companies to delay effective regulations will bring risk to the entire economy, and consequently impact all investors regardless of whether they are avoiding high-carbon sectors. Companies should disclose their general position on climate change regulation, describe any lobbying activity they have engaged in, and provide disclosure on the lobbying activities of any industry associations or other third party organizations they provide funding to.

Where companies do not disclose on these key metrics, they should be encouraged strongly to explain why. If a company does not disclose because it is much less exposed to climate risk than might be expected in the sector, it should explain its unique circumstances; if it does not disclose because it has not yet set up data collection, it should indicate what is being done to remedy this gap.

A key issue that needs to be addressed in any guidance is the need to avoid boilerplate language. Currently, we have fairly broad disclosure on climate risks in high-carbon sectors such as the energy sector. However, these disclosures are often boilerplate and devoid of specific company context. This type of disclosure brings no value to investors. As such, explicit guidance should be given on the imperative to avoid boilerplate language when providing climate-related financial disclosures.

Question 6

There are several best-practice examples of excellent disclosure on climate change risks. We anticipate the Task Force will receive many such examples that will help to illuminate what excellent disclosure looks like. We would like to point to a less obvious example of climate-related disclosure from a mid-cap company. The reason we choose this particular example is to show that a company need not be a large multi-national enterprise with significant resources in order to provide decent, material disclosure. From a Canadian perspective, the biggest gap in climate-related disclosure can be found among the small to mid-cap players, and any recommendations from the Task Force should be geared to ensuring that these players in particular are incented to provide material disclosure.

- ARC Resources Ltd. (ARC) (http://www.arcresponsibility.com/environment/)
  ARC consistently makes the CDP Canada Leadership Index despite being much smaller than the majority of major North American exploration and production companies. ARC is a good example of disclosure that provides us with confidence the company is aware of the risks it faces and is working to mitigate them. We recommend the Task Force view the company's CDP survey responses for a deeper understanding of the company's disclosure.

Question 7

The question of how to define transition risk is a challenging one. The Task Force is correct in stating it is an evolving term. At the most basic level we define transition risk as the risk to the company from an economy wide shift to a low-carbon energy system. Implicit in this definition are the direct financial costs imposed on a business due to increasingly stringent climate regulations, the reputational risks of being seen to be impeding (or not partaking in) the energy transition, and the market-based risks of reduced demand for its product as a result of competing lower-carbon technologies or alternatives. We feel that at this stage it would be very difficult to determine a quantifiable metric that could cover transition risk. Ultimately, investors need to know that a company is actively assessing the risks to its business model from a transition to a low-carbon energy system and is developing plans to mitigate those risks. We feel this will inevitably involve a narrative discussion.

However, we do believe that transition risk is closely aligned with the idea of low-carbon scenario planning and do feel that some quantifiable data can be provided in the context of discussing low-carbon scenario planning. In particular, in regard to fossil fuel companies, we believe that there is the potential for quantifiable metrics in regard to the discussion of reserve life. Understanding the range of carbon intensities of fossil fuel reserves, and the risk to these reserves from reduced demand and/or higher carbon prices is a material piece of information that companies are currently reticent to share. Due to the uncertainty of transition risks, we believe this reticence is not entirely unwarranted and concerns about unduly scaring investors away should not be dismissed. However, we believe the current level of disclosure on these material risks is deeply inadequate and the Task Force should explore avenues to provide information that addresses the risk of "stranded assets" in a way that doesn't compromise the current financial system but does provide an indication of future risk trajectories.

Question 8

The three sectors we feel are most exposed to climate risks (using the broad sector definitions from Question 1) would be the energy, utilities, and financial sectors. The first two sectors, absent any changes in current business models, face existential risks from the transition to a low-carbon economy. While we anticipate that there will be actors in each of those sectors that will adapt and prosper in a low-carbon future, it is almost certain that many actors will ultimately cease to exist. The financial sector is exposed primarily through its capital investment in the first two sectors, and absent any strategic approach to climate risks will ultimately bear the brunt of the failure of companies to effectively bridge the transition.

Question 9

In regard to how the Task Force should consider the challenge of aggregate versus sector-specific climate-related financial risks and opportunities, we do not have specific guidance to give. We would however stress that the Task Force ensure it looks beyond the current focus of some financial actors on the simple metric of carbon emissions. While a critical input into the assessment of aggregate and sector-specific risks, undue focus on absolute emission profiles could have perverse impacts.

Specifically, we note the growing trend in the investment industry to look at the carbon weighting of investment portfolios and actively work to reduce the carbon "footprint" of portfolios. While there is merit in the pursuit of developing useful carbon related metrics, the current approach does have some significant drawbacks that would lead to unintended consequences if carried to their logical end. Specifically, the focus on carbon weighting (e.g. the estimated carbon emissions per invested dollar in a company), absent any integration of the investee company's strategic approach to climate risks and opportunities, would imperil the capital flows of certain high-carbon industries that may be actively working to create solutions to the energy transition. For example, many industrial companies have a significant carbon footprint due to the current limitations of the manufacturing process, but may in fact be creating products that once in use will lead to dramatically lower emissions than competing technologies. Likewise, a blind focus on carbon footprint would favour investment in an oil & gas services company over an oil & gas exploration and production company – which reduces your carbon footprint but does nothing to eliminate your transition risks.

A related concern is that we feel there is an imperative to ensure that any recommendations that come out of Phase II do not incent capital flows that could themselves be destabilizing to the financial system. Specifically, there is a widely acknowledged imperative to increase the flow of investment towards companies working on low-carbon solutions (e.g. renewable energy, energy efficiency, etc.). This is particularly true in regard to funding for early stage research and development of new technologies.

However, for those companies that are publicly listed, investors need to exercise caution in shifting capital to these companies at too great a pace lest their actions lead to unintended consequences. Namely, rapid investment into these nascent sectors, if they are not ready for it, could lead to the over-inflation of company valuations, i.e. creating a "bubble". This would be detrimental both to the stability of the financial system, but also to the development of low carbon industries. There is an urgency to our need to rapidly grow low-carbon industries, but we are concerned that there is little discussion of the downsides should we not exercise adequate caution.

Question 10

We believe that there is absolutely a role for scenario and sensitivity analysis in climate-related disclosures, in particular for current high-carbon sectors. We would point to the shareholder proposal that NEI Investments filed with Suncor Energy on its strategic corporate resilience in a low carbon future as an example of the relevance of scenario analysis to the energy sector.[1] The resolved clause states:

"Be it resolved that:
Suncor provide ongoing reporting on how it is assessing, and ensuring, long-term corporate resilience in a future low-carbon economy. Specifically, reporting could be stand-alone or integrated into current company reporting mechanisms and could address Suncor's technology pipeline, emission reduction targets and performance, innovation and energy diversification strategies, provide a narrative on any stress-testing done against external low carbon scenarios (e.g. IEA's 450 and 2C Scenarios), and other relevant strategies."

This proposal was on the ballot at Suncor's 2016 AGM and received over 98.18% support from shareholders. Note that Suncor recommended that shareholders vote FOR this resolution. We believe the company's support for the resolution, along with the overwhelming support of shareholders for the resolution, is indicative of the material relevance of scenario analysis.

There is a growing body of work on the risk of stranded assets for the fossil fuel industry, much of which raises the spectre of very material risks to company business models.[2] The industry response so far has been to downplay the risks of a low-carbon future ever occurring. In other words, the risk of stranded assets will be nil if we never stop using fossil fuels. Whether this is an accurate prognostication or not, it does not answer the original question of how a company's strategic direction would fare in a potential low carbon economy. We believe that Suncor's support for our proposal will be the start of a shift from industry to address this key question, and scenario analysis will be a vital aspect of the endeavour.

We would note with caution that our experience in raising the issue of scenario analysis with companies indicates that there is merit in being specific about what is meant by this term. A common concern voiced to us by companies is that they do not want to set the expectation among investors that the company will undertake the development of a scenario analysis itself (similar to what BP Energy and Shell produce). Most companies do not have the resources or the expertise to undertake such an endeavour. Instead, our intention was that companies would use the low-carbon scenarios produced by other organizations (e.g. the International Energy Agency's 450 Scenario) and assess the resilience of their strategy against those externally produced scenarios.

---

[1] For the full resolution, see Schedule A-1 of Suncor's 2016 Management Proxy Circular: http://www.suncor.com/~/media/Files/PDF/Investor%20Centre/Annual%20Reports/2015%20AR/2015%20English/6375107_Suncor%202016%20English%20Proxy%20Circular.ashx?la=en-CA

[2] See for example: Carbon Tracker(http://www.carbontracker.org/), Sustainable Finance Program, University of Oxford's Smith School of Enterprise and the Environment (http://www.smithschool.ox.ac.uk/research-programmes/stranded-assets/)

Question 11

As a retail investment manager, our primary concern in regard to asset classes would be public equities and fixed income instruments (bonds). The top priority for action for either asset class would be the near-term development of core disclosure expectations that are applicable to a broad suite of companies and sectors. Ideally we would like to see disclosure on climate change related risks become mandatory – either under the current expectation to disclose material risks to investors or through more explicit requirements from securities regulators or stock exchanges.

Question 12

The Task Force may wish to consider whether the Equator Principles offer any insights relevant for the current project. Under the Equator Principles, based on their sustainability profile projects financed are assigned a sustainability risk category letter grade, associated with mitigation and reporting expectations. Projects with a higher risk categorization will have commensurately higher mitigation and reporting expectations. This categorization creates the potential to aggregate, and to demonstrate the extent to which the finance provider is exposed to loans associated with different levels of sustainability risk.

Question 14

We are not aware of any standards currently in place to provide retail investors assurance that climate risks and opportunities are being effectively managed in their savings and investment products. However, we strongly support the development of any such standards and believe the industry would be stronger for it. The current lack of standards creates uncertainty for the end investor and provides a disincentive for investment managers to apply rigorous risk mitigation strategies. Further, the lack of an external standard makes it difficult for retail investment managers who are taking substantive action to differentiate themselves in the marketplace. This is a further disincentive to implementing effective risk mitigation strategies.

NEI takes great care to be transparent about all of our program activities, and our disclosures might provide insight into what expectations a standard might employ. All of the work we do on corporate engagement, proxy voting, public policy submissions, and research related to climate risks can be found on our website.[3] On a similar note, we would point to the UN Principles for Responsible Investment

[3] Our annual report details the high level actions we take throughout the year: https://www.neiinvestments.com/pages/about-nei/corporate-social-responsibility/
Our climate-related corporate engagement work can be found here: https://www.ethicalfunds.com/en/companies/
Our relevant climate-related research can be found here: https://www.neiinvestments.com/pages/about-nei/about-ethical-funds/esg-difference/research/
All of our public policy submissions related to climate change can be found here: https://www.neiinvestments.com/pages/about-nei/about-ethical-funds/esg-difference/public-policy-and-standards/

NEI INVESTMENTS
505 – 1111 West Georgia Street | Vancouver, B.C. | V6E 4M3
T: 604.633.0615 F: 604.633.0619 TF: 1.866.888.0615
www.NEIinvestments.com
Northwest & Ethical Investments L.P. acting through its general partner Northwest & Ethical Investments Inc.

(PRI) and the requirement for signatories to annually report on how they are embodying the six principles of the PRI. This is a mandatory disclosure for signatories and as such is the closest the industry currently has to a disclosure standard.

Question 18

The Task Force should define success as the broad application of its recommendations across sectors. Further, the recommendations should be widely applicable to companies of varying size and market cap. As there is a significant gap between the current corporate leaders in climate disclosure and a substantial portion of the equity markets, the goal of the Task Force should be to eliminate that gap while still providing room for ambition from the leaders.

Question 19

There are several key barriers the Task Force will need to overcome to be successful in fulfilling its mandate. One is the reluctance of issuers to provide material climate risk information that will inevitably shine a light on the weakness of certain business models. Better disclosure will ultimately uncover significant risks for some players and this will always be a challenge to overcome in a world where companies are fighting for access to capital.

Another key barrier is the temptation to oversimplify climate-related financial disclosure in order to provide investors with a narrow set of quantifiable metrics. While there is certainly value in having quantifiable metrics to assess performance, we would stress that a deeper understanding of the inherent risks and opportunities will ultimately have to go deeper and may not lend itself to simple quantitative analysis. We believe that the financial sector is often seeking simple solutions to complex problems and this tendency has led to poor decisions that have threatened the stability of the system in the past.

Finally, as mentioned in the Phase I report, the proliferation of disclosure frameworks, and the corresponding stakeholders promoting those frameworks, will be a barrier to progress. The plethora of disclosure frameworks is an ongoing challenge for companies looking to disclose and is likely to remain a challenge after the Task Force's final report. However, navigating a path that has the best alignment with other frameworks will temper this risk.

Question 20

We believe the Task Force has identified an appropriate set of topics for its Phase II work plan and do not at this time have any additional topics for consideration.

All of our proxy voting decisions on climate-related governance issues are found here:
https://www.neiinvestments.com/pages/about-nei/about-ethical-funds/esg-difference/proxy-voting/
Our proxy voting guidelines (which cover climate-related proposals) are found here:
https://www.neiinvestments.com/documents/FlippingBooks/Proxy%20Voting%20Guidelines%202016/files/assets/basic-html/page-1.html

NEI INVESTMENTS
505 – 1111 West Georgia Street | Vancouver, B.C. | V6E 4M3
T: 604.633.0615 F: 604.633.0619 TF: 1.866.888.0615
www.NEIinvestments.com
Northwest & Ethical Investments L.P. acting through its general partner Northwest & Ethical Investments Inc.

Question 22

There are several organizations that are currently working on various aspects of climate-related financial disclosure that would prove valuable for the Task Force to reach out to. The following list is not exhaustive but we believe contains a broad spectrum of opinions that will be valuable to incorporate.

- Chartered Professional Accountants Canada: https://www.cpacanada.ca/en
- Chartered Financial Analyst Institute: https://www.cfainstitute.org/Pages/index.aspx
- International Corporate Governance Network: https://www.icgn.org/
- Institute of Corporate Directors: https://www.icd.ca/Home.aspx
- Ontario Securities Commission: http://www.osc.gov.on.ca/

All of the above organizations represent fairly mainstream financial stakeholders yet are looking into these issues to varying degrees. As such their perspectives could be useful. If the Task Force requires assistance in making contact with any of these organizations we would be happy to help.

Thank you for the opportunity to comment on the Phase II questions. We commend the Task Force for undergoing a substantive consultation process and look forward to its recommendations. If you have any questions regarding this letter please contact **Jamie Bonham, Manager, Extractives Research & Engagement, NEI Investments (jbonham@neiinvestments.com; +1-604-742-8328)**.

Sincerely,
NEI Investments

Jamie Bonham
Manager, Extractives Research

CC:
Mr. Bob Walker, Vice President, ESG Services & Ethical Funds, NEI Investments
Ms. Michelle de Cordova, Director, Corporate Engagement and Public Policy, NEI Investments
Board of Directors, NEI Investments

NEI INVESTMENTS
505 – 1111 West Georgia Street | Vancouver, B.C. | V6E 4M3
T: 604.633.0615 F: 604.633.0619 TF: 1.866.888.0615
www.NEIinvestments.com
Northwest & Ethical Investments L.P. acting through its general partner Northwest & Ethical Investments Inc.