



Ms. Vanessa Countryman  
Secretary  
Securities and Exchange Commission  
100 F Street N.E.  
Washington, DC 20549

Re: File No. S7-10-22: The Enhancement and Standardization of Climate-Related Disclosures for Investors

Dear Secretary Countryman,

Addenda Capital writes in support of File No. S7-10-22: The Enhancement and Standardization of Climate-Related Disclosures for Investors. We appreciate your hard work to ensure the proposal meets the needs of investors for material climate-related information and also furthers the SEC's objectives to maintain fair, orderly, and efficient markets and facilitate capital formation.

Addenda Capital recognizes that we are faced with one of the greatest challenges of our lifetime, one that requires both individual efforts and global cooperation on a scale that is without precedent. Climate change is threatening irreversible damage in countless regions of our planet. Events, whether natural disasters or changes to our environment, are of concern for Addenda, its clients and its employees. Our parent, [The Co-operators](#), is at the forefront of supporting home and property owners in a world of increasing floods and wildfire events.

As an investment manager, with assets in Canada, US and globally, Addenda Capital believes it can — and should — play an active role to make a difference in the fight against irreversible consequences from climate change, especially given climate transition and physical climate risks can have systemic negative impacts on risk adjusted returns and that mitigating these risks now is in the best interests of our clients' long-term financial objectives.<sup>1</sup> In addition, we believe in the consideration of Environmental, Social and Governance (ESG) issues, in being active owners through proxy voting and engagement practices and in promoting better market practices overall,

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<sup>1</sup> As some examples studies on material and structural climate issues for investors and markets see: [Managing Climate Risk in the US Financial System](#), Report of the Climate-Related Market Risk Subcommittee, Market Risk Advisory Committee of the US Commodity Futures Trading Commission; Bank of Canada and Office of the Superintendent of Financial Institutions, [Using Scenario Analysis to Assess Climate Transition Risk Report](#).



all activities which we believe make us better investors as outlined in our [Sustainable Investing Policy](#).

Addenda supports the SEC's proposal because it would result in decision-useful, comparable climate risk information leading to a vast improvement compared to disclosures that are currently available. We see the proposed rule as being in line with the SEC's mission, which includes ensuring that investors have the information they need to conduct investment research and apply risk management practices. In addition, we support efforts in the following areas:

#### **Alignment with TCFD and ISSB**

We appreciate the integration of nearly all of the recommendations of the Task Force on Climate-related Financial Disclosures (TCFD) into the SEC's proposal, because the TCFD recommendations cover many of the essential elements of climate risk disclosure that we use for our decision making and are already often used by companies, investors and securities regulators worldwide. One key element of the updated TCFD guidelines, which we support, is the disclosure of the degree to which an entity is working to limit global warming to 1.5°C and in alignment with the latest international agreement on climate change, including target and goal provisions. This can be initially applied to larger firms with material climate risks and could be phased in over time.

Addenda has committed to managing climate risks and reporting in line with TCFD guidelines as outlined in our own TCFD Report.<sup>2</sup>

We also support the SEC's efforts to align with the developing ISSB climate risk disclosure standards.<sup>3</sup> Addenda already is applying ESG materiality mapping as established by SASB, which is one of the foundations for ISSB's framework. Therefore, the application of ISSB's standards would be very much aligned with our own approach and that of many other investors in the market.

Given the ISSB standards are very much focused on the materiality of ESG factors *to* investment portfolios and not the other way around, it may be prudent to stress that the focus of the rule and standards does not address the impact of investment portfolios *on* the climate, environment or

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<sup>2</sup> <https://addendacapital.com/Portals/0/2021%20TCFD%20Report.pdf>

<sup>3</sup> <https://www.ifrs.org/news-and-events/news/2022/03/issb-delivers-proposals-that-create-comprehensive-global-baseline-of-sustainability-disclosures/>



society. Although we would argue that by increasing transparency of carbon emissions and climate risks, and with investors researching climate factors, these externalities to the environment and society will more fully begin to be priced-in by markets over time.

Overall, we support greater global harmonization of international disclosure frameworks to minimize conflicting requirements, lessen the burden of reporting by global companies and to limit market fragmentation.

### **Missing: Indigenous Peoples**

Given there are many impacts and connections with Indigenous Peoples through the operations, business practices and carbon emissions of listed companies, we believe it important to include elements of disclosure related to First Nations and Indigenous Peoples. Adaption and climate resilience, we believe, is best done when companies include Indigenous, community knowledge and stakeholder issues. In many regions, Indigenous Peoples are critical stakeholders in resource conservation and management that can contribute to climate stability. In addition, they often live in proximity to activities that have large GHG and environmental footprints such as mining, drilling, forestry and power generation or in regions that are now being most impacted by climate change. We would applaud recommendations related to referencing Indigenous Peoples' rights and roles, how they have been considered in any due diligence processes related to capital expenditure plans and in any study, and disclosure of climate analysis, transition plans and goals. We would look for specific reference to the UN Declaration on the Rights of Indigenous Peoples.

### **GHG Emissions**

We also support the SEC's inclusion of required GHG emissions reporting because this information is critical to our understanding of the quality of a company's earnings in the face of climate change and the energy transition. It provides insights into the potential climate transition risks the company may be facing as high-emitting companies in many jurisdictions are being required (through various mechanisms) to lower their emissions. We commend the SEC in particular for requiring:

- disclosure of Scope 1 and Scope 2 emissions in absolute and relative terms;
- reporting of Scope 3 emissions if material, and disclosure if emissions reduction targets include Scope 3;
- reporting on the methods used and any material changes from previous years;
- reporting on physical and transition risks related to climate and estimation of the materiality of these risks;



- Establishing appropriate phase-in periods for required reporting and assurance.

We also view GHG emissions reporting as realistic as many of the companies we engage within our Climate Transition Strategies<sup>4</sup> are already measuring and beginning to report these metrics voluntarily. In addition, those companies that are more climate aware and reporting these emissions express that it has positively influenced their own understanding of both climate risks and opportunities, and is of great strategic value.

### **Scenario Analysis and Location Information**

We endorse the proposal to require issuers to implement scenario analyses. We recommend that companies be required to consider a scenario that limits global warming to 1.5°C.<sup>5</sup> We recognize that the SEC could apply higher expectations for scenario analysis to larger firms such as those that operate in the financial sector, provide essential services (e.g. utilities) or that are important for market and economic stability. Scenario analysis provides important information to the issuer and investor regarding the resilience of an entity to climate transition and physical climate risks.

In addition, we encourage standardization of location-specific disclosure (e.g. latitude and longitude along with revenue or operating profit contribution thresholds) to better understand climate risks. Knowing the location of key operations or facilities that contribute materially to financial performance of a company is critical for investors to fully understand their own climate risk exposure, including their portfolios' regional exposures to areas that face high physical or transition climate risks. Numerous data and research providers are already conducting this analysis, but without clear disclosure rules, reliance on estimation methods and data quality remains an issue.

For both the scenario analysis and location specific information, where appropriate, we encourage the disclosure of climate opportunities also. For instance, these could include whether a company is better positioned than competitors due to physical locations less impacted by climate risks, or whether it is investing in technologies that will help it decarbonize faster or manage climate risks better than market peers.

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<sup>4</sup> <https://addendacapital.com/en-ca/insights-news/launch-of-investment-funds-to-support-climate-transition>

<sup>5</sup> The [Glasgow Climate Pact](#) “*recognizes* that the impacts of climate change will be much lower at the temperature increase of 1.5°C compared with 2°C and *resolves* to pursue efforts to limit the temperature increase to 1.5°C.”



## Offsets

We support the inclusion of carbon offsets and recommend that clear definitions be provided of the various terms used on this topic. The use of carbon emissions offsets should include:

- assurance of their additionality (investment with intent to reduce carbon emissions);
- permanence and risks to realizing the offsets;
- if there is any duplication in reliance or potential reporting with others investing in the same offset assets;
- and if they were applied following certification and market standards.

## Phases and Safe-harbor

The requirement for all companies to disclose Scope 3 emissions, conduct scenario analysis and provide decarbonization targets may be onerous, especially for those that are deemed to not have high GHG emissions or face material climate risks. A phased in approach or explain provision may be a good way forward. We believe assurance is needed to ensure accurate and consistent information and support of the reasonable phasing in of assurance requirements, since it will take time for assurers to scale and skill-up to meet this demand.

The increased incidence of floods, storms, and wildfires as physical impacts of climate change is increasingly being felt by companies, insurers and investors<sup>6</sup>. In addition, peer-reviewed research and analysis provide evidence that the accuracy and effectiveness of climate models has been improving.<sup>7</sup> However, despite this we think it is important to provide safe harbors for reporting on Scope 3 and vulnerability to physical risks, given that this reporting does rely on third parties, as scientific data, models, and methods continue to improve.

We appreciate the SEC for acknowledging that significant costs to companies may be involved in the short term. However, we want to make clear that many investors, ourselves included, are already bearing significant research and operating costs due to lack of corporate disclosure. This

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<sup>6</sup> <https://www.swissre.com/dam/jcr:ebd39a3b-dc55-4b34-9246-6dd8e5715c8b/sigma-1-2021-en.pdf>

<sup>7</sup> National Academies, “Climate Models Reliably Project Future Conditions,” Climate models reliably project future conditions | National Academies; Alan Buis, “Study Confirms Climate Models are Getting Future Warming Projections Right,” NASA Global Climate Change, Jan. 9, 2020, Study Confirms Climate Models are Getting Future Warming Projections Right – Climate Change: Vital Signs of the Planet (nasa.gov); and Warren Cornwall, “Even 50-year-old Climate Models Correctly Predicted Global Warming,” Science, Dec. 4, 2019.



includes investing in third-party research providers and consultants and dedicating valuable staff time to estimate carbon emissions data and conduct climate risk analysis both at the security and aggregate portfolio level. We would much prefer to rely on standardized, transparent corporate disclosure directly from companies. Standardized disclosure would result in reduced research costs, increased accuracy and would improve the quality of our research, therefore making us better investors. It would also help us help our clients — be they pension funds, endowments or foundations — meet their fiduciary and investment objectives.

Thank you very much for your consideration of our comments.

Sincerely,

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Roger J. Beauchemin, CFA  
President and CEO

*Monika Freyman*

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Monika Freyman, CFA  
Vice-President Sustainable Investing

*Marie-Claude Durocher*

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Marie-Claude Durocher, CFA  
Senior Director, Business Development and Client Partnerships (US Market)