

June 15, 2020

John McKenzie, Interim Chief Executive Officer and Chief Financial Officer  
Luc Fortin, President and CEO, Montreal Exchange and Global Head of Trading  
Loui Anastasopoulos, President, Capital Formation  
TMX Group Limited

Dear Mr. McKenzie, Mr. Fortin and Mr. Anastasopoulos,

We are institutional investors who integrate environmental, social and governance (ESG) information into our investment process and invest in companies listed on TMX exchanges. We are writing to encourage TMX to exercise its market forming role to enable and enhance the ESG disclosure of companies listed on the TSX and TSX Venture Exchange in line with frameworks provided by the Sustainability Accounting Standards Board (SASB) Standards and the Taskforce on Climate-Related Financial Disclosures (TCFD).

We congratulate TMX on the leadership it has recently shown in joining the Sustainable Stock Exchanges (SSE) initiative, providing ESG training and tools through its Learning Academy, and developing ESG-related indices. We believe the company can do even more to benefit both investors and issuers by driving the adoption of standardized reporting frameworks.

### **Canadian and global investors seek quality ESG disclosure**

The global momentum of ESG and sustainable investment is clear. 3038 investment institutions with over USD \$86 trillion in assets under management (AUM) have signed on to the Principles for Responsible Investment (PRI).<sup>1</sup> Signatories commit to following a set of six principles that address the investment relevance of ESG information and lay out the fiduciary responsibilities of institutional investors to incorporate ESG issues into their investment practice.<sup>2</sup> There are 160 Canadian signatories to the PRI.<sup>3</sup>

In response to the growing demand for ESG information, many SSE members have adopted ESG reporting requirements as listing rules and provide regularly updated guidance on global best practice in reporting.<sup>4</sup> As detailed below, there is growing international consensus that reporting in line with SASB Standards and the TCFD recommendations is best practice. We encourage TMX to adopt ESG disclosure incentives or requirements that promote public disclosure to investors aligned with the TCFD and SASB.

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<sup>1</sup> <https://www.unpri.org/searchresults?qkeyword=&parametrics=WVSECTIONCODE%7c1018>

<sup>2</sup> <https://www.unpri.org/pri/about-the-pri>

<sup>3</sup> <https://www.unpri.org/searchresults?qkeyword=&parametrics=WVSECTIONCODE%7c1018>

<sup>4</sup> <https://sseinitiative.org/exchanges-filter-search/>

## TCFD sets the standard for climate disclosure

The TCFD was appointed by the Financial Stability Board at the request of G20 Finance Ministers and Central Bank Governors in recognition of the systemic risk that climate change brings to the financial system. In 2017 the TCFD released a set of recommendations for climate-related disclosures, as well as general and sector-specific guidance to assist organizations in implementing the recommendations.<sup>5</sup>

The TCFD's focus on both investors *and* companies has dramatically shifted the global conversation on climate change and capital markets. The TCFD framework asks investors to demonstrate due diligence on the climate-related risks in their portfolios. However, investors can only conduct and report on this due diligence effectively if they have adequate disclosure from issuers.

Since its launch, the TCFD has experienced rapid adoption across industries. Over 1000 global companies and investors with a combined market cap of USD \$12 trillion have signed on as supporters of the TCFD framework.<sup>6</sup> Investors representing USD \$40 trillion in AUM are participating in the Climate Action 100+ investor collaboration which asks the 161 biggest GHG-emitting companies globally to align their disclosure with the TCFD recommendations.<sup>7</sup> Many other investors and companies draw on the TCFD to inform their climate-related risk oversight, planning and disclosures. Most, if not all, major mandatory or voluntary corporate ESG disclosure frameworks have incorporated the TCFD<sup>8</sup> and from 2020 onward, annual TCFD-based reporting will be mandatory for all PRI signatories.<sup>9</sup> In short, the TCFD has become the gold standard for climate disclosure.

## SASB is the globally respected framework for material nonfinancial disclosure

SASB has developed 77 industry specific standards that outline and provide guidance for each industry on the minimum set of likely financially material sustainability topics and metrics that companies ought to regularly disclose. The SASB standards were released in 2018 following six years of rigorous research and consultation with investors, companies and subject matter experts.<sup>10</sup>

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<sup>5</sup> <https://www.fsb-tcfd.org/>; [https://www.fsb-tcfd.org/wp-content/uploads/2020/03/TCFD\\_Booklet\\_FNL\\_Digital\\_March-2020.pdf](https://www.fsb-tcfd.org/wp-content/uploads/2020/03/TCFD_Booklet_FNL_Digital_March-2020.pdf)

<sup>6</sup> <https://www.fsb-tcfd.org/tcf-d-supporters/>

<sup>7</sup> <https://climateaction100.wordpress.com/about-us/>

<sup>8</sup> See for example:

[https://www.tcf-dhub.org/resource/?search\\_keyword=&order=ASC&orderby=relevance&resource\\_type%5B%5D=framework-standard&resource\\_type%5B%5D=guidance-tool&resource\\_type%5B%5D=legislation-regulation](https://www.tcf-dhub.org/resource/?search_keyword=&order=ASC&orderby=relevance&resource_type%5B%5D=framework-standard&resource_type%5B%5D=guidance-tool&resource_type%5B%5D=legislation-regulation)

<sup>9</sup> <https://www.unpri.org/news-and-press/tcf-d-based-reporting-to-become-mandatory-for-pri-signatories-in-2020/4116.article?adredir=1>

<sup>10</sup> <https://www.sasb.org/standards-overview/>

Like the TCFD, SASB has rapidly gained widespread recognition and support. SASB is supported by global investors with USD \$48 trillion in assets under management, including many of the world's largest asset managers and owners.<sup>11</sup> In addition, many listed companies in Canada have already adopted SASB as a reporting framework.<sup>12</sup> The rapid adoption of SASB standards is due in part to their focus on financial materiality and decision-useful information. SASB standards are not designed to address the needs of all stakeholders, but they service financial markets well and as such provide a basic starting point for material ESG disclosure.

Not only are SASB and the TCFD widely supported, they are also increasingly referenced or integrated into general corporate disclosure guidance. In 2018-2019 the Canadian Securities Administrators (CSA) conducted a review of issuer reporting on climate change-related risk and provided additional guidance to issuers on material climate-related reporting.<sup>13</sup> The review found that investors had increased attention to climate-related risks in their decision-making, yet among TSX-listed issuers, climate-related disclosure lacked comparability or completeness. The guidance cites SASB and the TCFD as preferred frameworks for disclosure of material ESG information.<sup>14</sup>

### **TMX should drive standardized ESG disclosure**

Recommendation 5.3 of Canada's Expert Panel on Sustainable Finance encourages the TSX to update its 2014 Primer for Environmental and Social Disclosure in line with the SSE Model Guidance and to consult with provincial regulators and Canadian investors to set a minimum reporting standard.<sup>15</sup> As Canadian investors, we support this recommendation. We also encourage TMX to prioritize SASB and the TCFD as two consensus frameworks for material ESG disclosure to an investor audience, both of which are emphasized in the SSE Model Guidance.

The central purpose of SASB and the TCFD is to provide a standardized approach for public disclosure of material non-financial information. For institutional investors, clear and comparable disclosure of this information is essential to fulfill their fiduciary duty of investing in the best interest of beneficiaries. For companies, this standardization helps to structure and manage which ESG issues they prioritize and what information they report when faced with multiple requests for data.

TMX has an opportunity to guide companies who are new to ESG disclosure, support those navigating a complex disclosure environment, and define a leadership position in North American markets. As the support for the PRI demonstrates, investors are hungry for ESG-informed investment opportunities. We believe that TMX leadership in this area will provide a

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<sup>11</sup> <https://www.sasb.org/>

<sup>12</sup> <https://www.sasb.org/blog/sustainability-has-climbed-the-corporate-ladder-now-what/>

<sup>13</sup> <https://www.securities-administrators.ca/aboutcsa.aspx?id=1833>

<sup>14</sup> [https://www.osc.gov.on.ca/documents/en/Securities-Category5/csa\\_20190801\\_51-358\\_reporting-of-climate-change-related-risks.pdf](https://www.osc.gov.on.ca/documents/en/Securities-Category5/csa_20190801_51-358_reporting-of-climate-change-related-risks.pdf); [https://www.osc.gov.on.ca/documents/en/Securities-Category5/csa\\_20180405\\_climate-change-related-disclosure-project.pdf](https://www.osc.gov.on.ca/documents/en/Securities-Category5/csa_20180405_climate-change-related-disclosure-project.pdf)

<sup>15</sup> [http://publications.gc.ca/collections/collection\\_2019/eccc/En4-350-2-2019-eng.pdf](http://publications.gc.ca/collections/collection_2019/eccc/En4-350-2-2019-eng.pdf) at p 20.

pathway to attracting capital investment to Canada by improving recognition of the ESG credentials of the companies listed on the TSX and TSX Venture Exchanges and by facilitating the development of new investment products based on the standardized data disclosed.

Should you have any questions about the information outlined above or wish to discuss ESG disclosure for listed-companies with our institutions, please contact Jamie Bonham of NEI Investments at [jbonham@neiinvestments.org](mailto:jbonham@neiinvestments.org) and Delaney Greig of Addenda Capital at [d.greig@addendacapital.com](mailto:d.greig@addendacapital.com). We would also welcome the opportunity to provide feedback as TMX moves forward with any ESG disclosure related initiatives.

Signed:

Twenty-eight Canadian institutional asset managers and owners