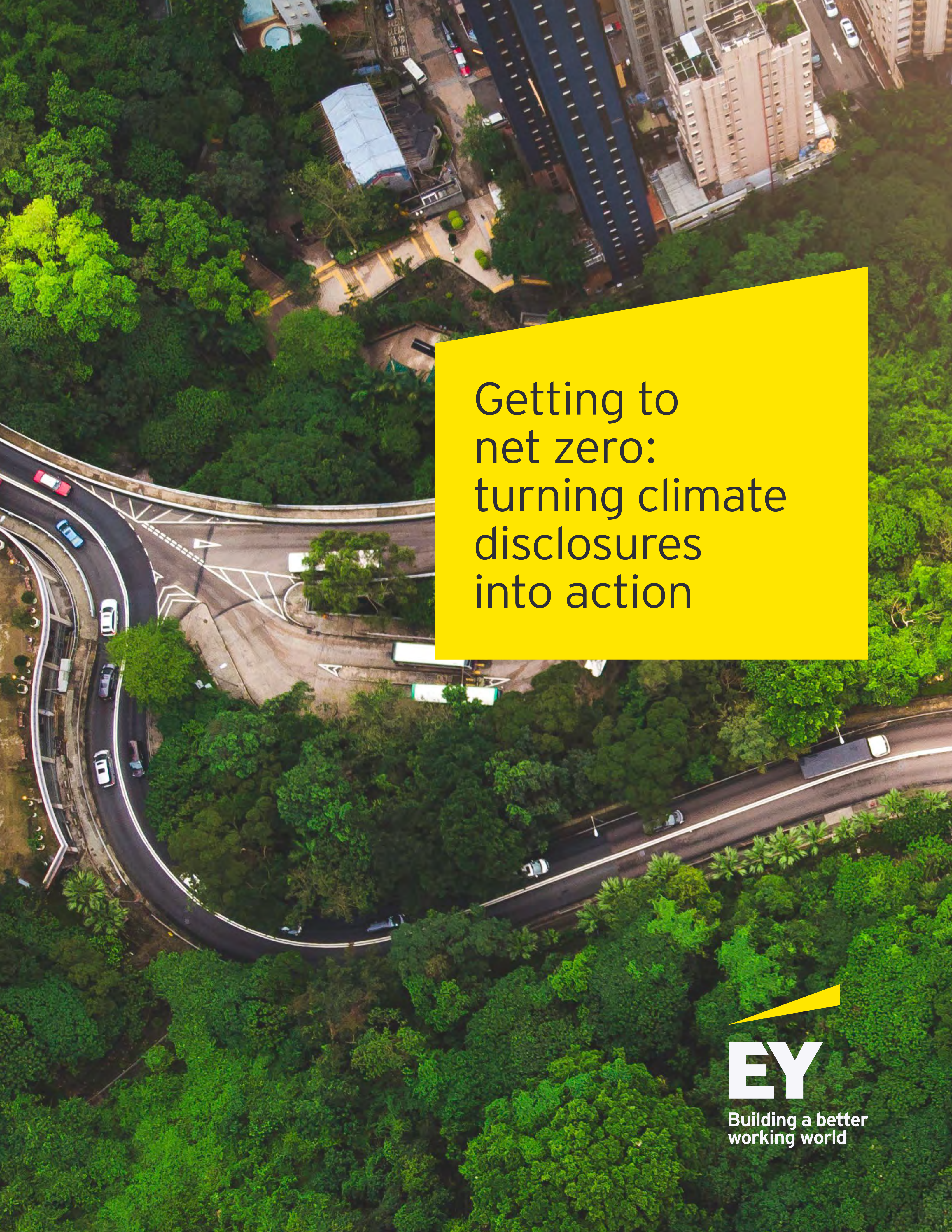

Getting to net zero: turning climate disclosures into action

Building a better working world

Canadian organizations are making good progress on climate-related risk disclosures. But according to a new report by EY, if they don't accelerate their efforts, they could be left out in the cold as regulatory requirements heat up in support of 2050 net-zero targets.

According to EY's fourth **Global Climate Risk Disclosure Barometer**, few companies appear to have acknowledged the depth of change needed to align operations with their climate change commitments. And even fewer have developed practical transition plans to get them there.

The annual barometer analyzes the climate-related disclosures of more than 1,500 organizations in 47 countries. Findings are then measured against a framework of 11 recommendations developed in 2017 by the Task Force on Climate-Related Financial Disclosures (TCFD) to improve reporting of climate-related financial information. Scores are assigned based on coverage of the recommendations — whether there is information presented for each of the recommendations — and on the extent to which a company's disclosure meets outlined expectations (quality).

Climate change is on the agenda

This year's global findings showed year-over-year increases across both scores, with coverage of climate disclosures up 14% over 2021 to 84%, and quality scores experiencing a modest hike from 42% to 44%.

But while companies appear to be embracing the TCFD recommendations, we're learning that disclosures are not as comprehensive as investors and regulators would like them to be. And with global energy-related carbon dioxide emissions up 6% in 2021, it's clear that companies aren't taking the holistic view of climate change risks and opportunities required to translate them into practical strategies and advance the decarbonization agenda as originally anticipated.

Only 29% of the companies assessed reported the impact of climate change in their financial statements, and the data shared was mostly qualitative. With many around the world implementing mandatory guidelines around disclosure requirements and investors clamouring for transition plans, the pressure is on.

But we're also learning that not all is lost. Companies are paying greater attention to strategy disclosures, with coverage up 16%. Global scores increasing to 42% from 38% in 2021 show that plans are under way and discussions are likely taking place at senior levels. Almost 61% of companies have disclosed decarbonization strategies and, perhaps most promising, almost half confirmed they're conducting climate scenario analyses, while three quarters are performing risk analysis – two areas regulators and investors are scrutinizing more closely as reporting continues to evolve.

And evolve it will. Results show high-performing markets with advanced reporting benefit from stronger regulations, clear signals from policymakers and proactive investors who lobby for change. Barometer standout countries – including the UK, Japan, South Korea and Canada – consistently bench higher than average.

GLOBAL SCORES INCREASING TO

42%

from 38% in 2021 show that plans are under way

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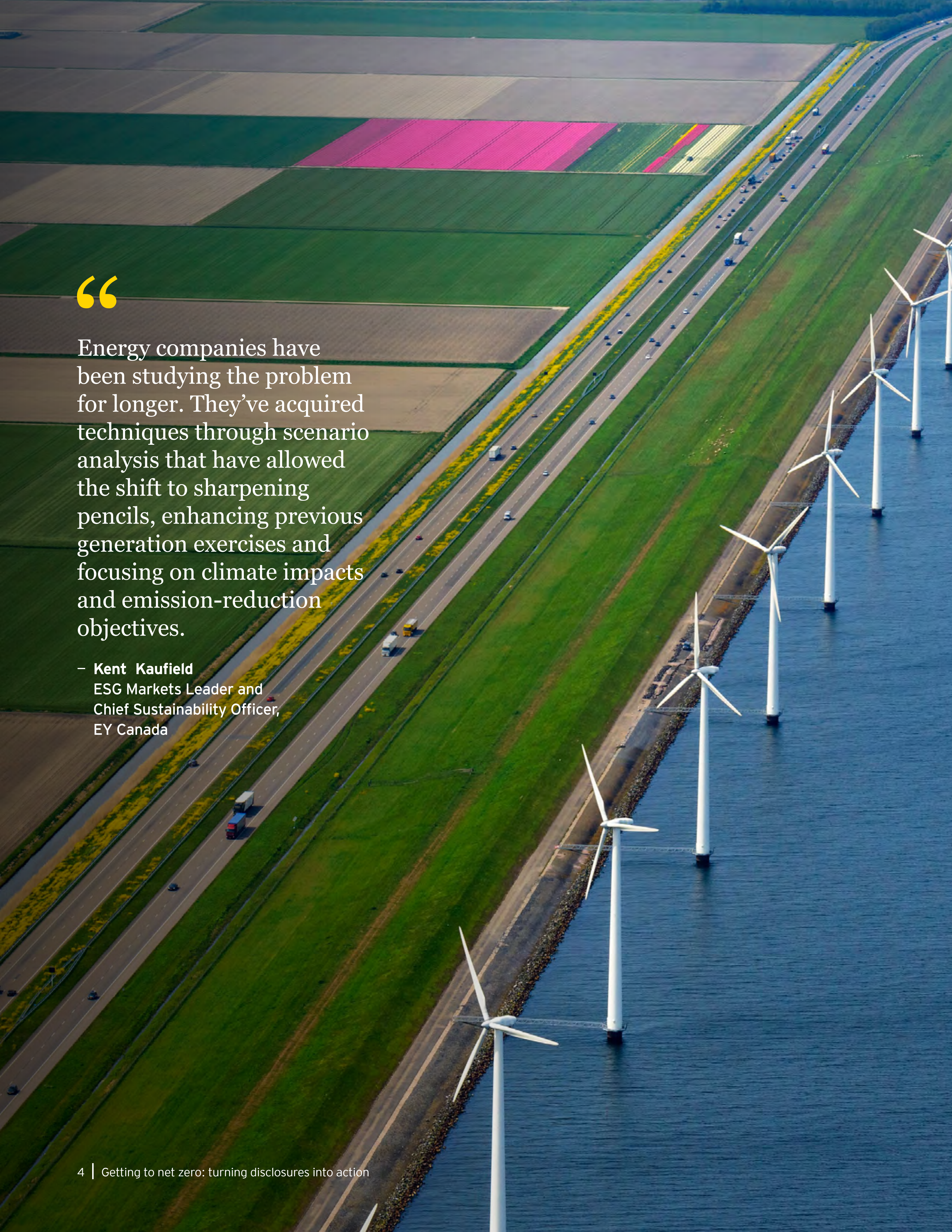
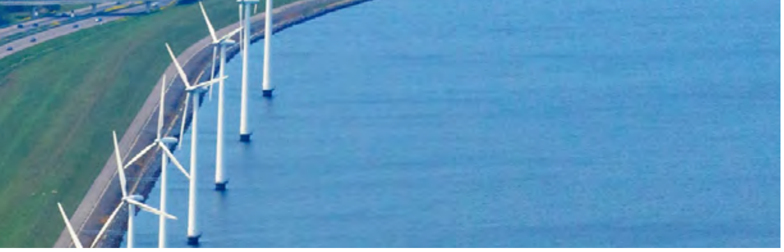
We’re learning that companies are not taking a holistic view of their climate change risks or the opportunities that can arise from them. While the TCFD recommendations were expected to drive climate change action, they’re not yet translating into practical strategies.

— **Thibaut Millet**
Partner, Climate Change and Sustainability Services
EY Canada



> Energy companies have been studying the problem for longer. They've acquired techniques through scenario analysis that have allowed the shift to sharpening pencils, enhancing previous generation exercises and focusing on climate impacts and emission-reduction objectives.
>
> – **Kent Kaufield**
> ESG Markets Leader and
> Chief Sustainability Officer,
> EY Canada



Canada maintains leader position

Canadian companies have consistently performed strongly on the barometer. With a quality score of 53% and coverage of 94%, Canada was a full 10% higher in scoring than the global average on both counts in 2022. This can be attributed to two key influences: a strong natural resource-based economy and a financial sector that performs well overall.

Sectors with the most significant exposure to transition risk — like energy — generally score higher. Among the most vulnerable to climate change risk due to high-emissions activities, energy plays a prominent role in climate disclosures.

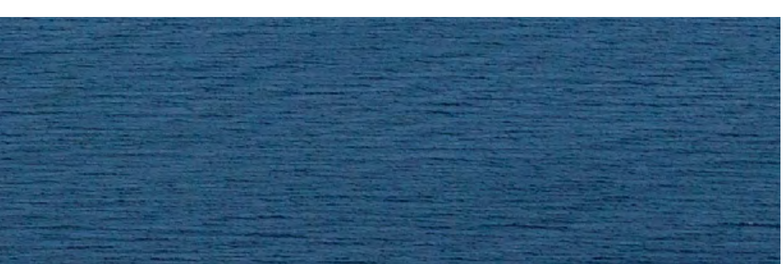
Spurred by public discord and stakeholder pressure, most notably from investors looking for solutions and risk assessments before allocating capital, they've admittedly been in the climate spotlight longer. Subjected to greater scrutiny, they've had time for disclosures to mature, scoring 100% in the disclosure of climate-related risks.

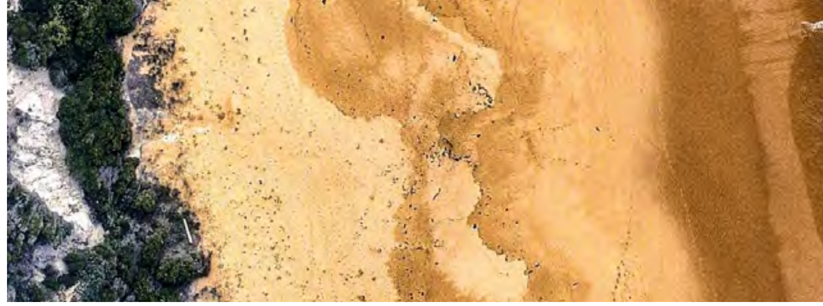
And with such disclosures typically part of business planning and discussions with regulators, it's not surprising then that energy companies have nearly doubled their non-financial counterparts in the use of scenario analysis at 57% compared to 32%, allowing them to shift to sharpen their pencils, enhancing previous-generation exercises and focusing on climate impacts and emission-reduction objectives instead.

Like energy, Canada's finance sector constitutes a large portion of companies in the Canadian segment of the barometer and one that performs particularly well. Prominent on the world stage of sustainable finance, our banks go beyond simply being signatories to the Principles for Responsible Investing or Banking. With all five large Canadian banks affiliated with the Net-Zero Banking Alliance, there's little surprise they outperformed in this category.

Many of our pension plans are members of the Investor Leadership Network, whose climate initiative is focused on accelerating implementation of uniform disclosures under the TCFD framework. This begins to explain the massive margins separating Canada from the pack. At a high level, the finance sector bested global averages by 29% and 23% on quality and coverage, respectively.

Despite stellar examples of reporting leadership from Canadian financial institutions, like recently seen disclosures of financed emissions per Partnership for Carbon Accounting Financials (PCAF) standards and the sharing of percentages of carbon-related assets per TCFD definitions, where the banks truly shone was in the reporting of net-zero plans and strategies, scoring a whopping 47% higher than global counterparts.





Shifting sands

While these leading sectors are well on their way with climate-related disclosures, those that didn't fare as well — and are not prepared for mandatory disclosure requirements expected in 2023 — may be rushed into compliance or find themselves less attractive to investors as regulations tighten.

The TCFD framework defining global climate change disclosures is almost half a decade old. International Financial Reporting Standards' newly minted International Sustainability Standards Board (ISSB), born of last year's COP26 conference, is in the process of drafting new standards for capital markets that are expected to be rolled out in 2023.

In the fall of 2021, the Canadian Securities Administrators issued a public consultation document on proposed regulations to mandate climate-related disclosures aligned with the TCFD framework. At the federal level, the Canadian Government has made TCFD-aligned disclosures mandatory for federal Crown corporations that hold more than $1b in assets starting in 2023.

The Office of the Superintendent of Financial Institutions published its draft version of expectations for consultation in May, and the federal government requires federally regulated banks and insurance companies to provide disclosures on their climate-related risks and exposures in 2024, communicating in the latest budget that federally regulated pension funds would be next.

And, in line with other G7 nations and post-election commitments in the US, Canada recently tightened its 2030 target to a 40% to 45% reduction over 2005 levels and committed to net-zero emissions by 2050.

Canada's 2030 Emissions Reduction Plan, launched in March 2022 on the heels of federal net-zero legislation approved in June 2021, has set the direction. With $9.1b in investments aimed at reducing energy costs and carbon pollution, the plan supports industries developing and adopting clean technologies, maintaining carbon pricing and easing the switch to electric vehicles.

The wheels are in motion and investor pressure is mounting. Climate Engagement Canada, a finance-led initiative aimed at presenting a unified investor voice to corporate issuers, has garnered the support of more than 30 financial participants to actively engage with some of the largest corporate emitters in the country and accelerate the decarbonization efforts of Canadian businesses.

It's only a matter of time before climate change disclosure is elevated from practice to priority, either at the individual country or global level. So what should companies be doing to accelerate their decarbonization journey, with disclosure at the heart of transformation?

If they're not doing so yet, organizations must assess their strategy and set meaningful targets, using scenario analysis to identify opportunities to explore, and collaboration to advance their progress.

The right metrics, not just focused on emission reductions against targets but more on disclosing the tangible details of how they will get there, will also be important. Tracking the breakdown of decarbonization investments, for example, or identifying green capital allocation and expenditures will be core to keeping focused and engaging investors whose decisions hinge on shorter-term targets and actions as opposed to sweeping and ambitious net-zero aspirations.

As a nation, we've set bold targets for climate action. New mandatory disclosure regulations are just around the corner. And while decarbonizing to preserve our environment, ensure clean air and minimize global warming won't happen overnight, most organizations will need to step up in the coming year or find themselves doubling down as time runs out.

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> It won't happen overnight, but there's no doubt climate disclosures will continue to improve as the regulatory environment evolves and companies gain momentum on net-zero plans. Scenario analysis can help identify opportunities to explore, and collaboration will be key to making progress quickly.
>
> – **Stephanie Hamilton**
> Director, Climate Change and Sustainability Services
> EY Canada

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