

From: Michelle de Cordova <MdeCordova@NEIinvestments.com>
Organization: NEI Investments

Overall:

You may wish to **include a section in the introduction outlining the key outcomes that are sought through this proposal**. This may facilitate discussion among the exchanges about ways to deliver the outcomes that the investors are looking for. From our perspective, the desired outcomes of this proposal could be summed up as follows:

- M1: All listed companies will be able to articulate the ESG risks and opportunities that are significant and relevant for their business, just as they are expected to articulate the financial risks.
- M2: All listed companies will provide timely disclosure on policy, practices and performance relative to key ESG matters, just as they are expected to provide financial disclosure.
- M3: All investors - large and small, institutional and individual - will be able to locate these ESG disclosures relatively easily, while allowing listed companies scope to publish the actual disclosures in a variety of locations depending on company and local market requirements.

Section M1:

Mandatory status of M1:

- **We would still prefer M1 to be simply mandatory (i.e. “comply”)**. Listing is a privilege, not a right. From an investor protection perspective, it is not unreasonable to expect that companies should be able to provide at least high-level disclosure on ESG issues that might seriously impact their business.
- **If a “comply or explain” approach is really necessary to build support, we would favour the option of moving automatically to mandatory “comply” after two years**. Listing is a privilege, not a right. From an investor protection perspective, any company that is not capable of providing at least high-level disclosure on ESG issues that might seriously impact its business, even after receiving two years’ warning, should not be raising money on public markets. The other option (moving to mandatory “comply” in markets where some yet-to-be-defined “acceptable” level of reporting has not been achieved after two years) is more complicated, creates uncertainty for companies and brings the risk that some markets will fail to act after two years, undermining the universal adoption objective of this initiative.

Question 1:

From our perspective, we want companies **to assess and report on ESG risks and opportunities that are significant and relevant to their business, and could affect investor decision-making**.

- Obviously, companies should report on direct ESG risks to the value of the company. But they should not focus solely on negative risks.
- If a company has found a way to avoid or mitigate an ESG risk that is generally a problem in the sector, such that it is no longer a risk, it is in the interests of both company and investor that the company should report on this. It could influence the investment decision positively. To

provide a concrete example: some investors are considering excluding companies operating in the oil sands because of the typical production GHG emissions levels associated with this resource. If a specific oil sands company was producing the heat for in situ steam-based extraction entirely from low emissions renewable energy, or was only using recyclable solvents for extraction, such that the production emissions were no higher than conventional oil, disclosure on the absence of GHG emissions risk would be significant and relevant. Although it might be expected that companies would always disclose positive information, from experience this it is not always the case.

- Universal owner investors have an interest in assessing if "non-material" externalities associated with one company in their holdings could negatively impact other holdings, or other interests that their mandates may require them to take into account (such as international norms).

Question 2:

Given the confusion surrounding the word “materiality”, perhaps it would be better to avoid the word altogether? If the word “material” is dropped, some suggested text edits:

- Rename section “ESG Assessment”?
- Every company will disclose its process for determining ESG *risks and opportunities that are significant and relevant to its business, and could affect investor decision-making*
- 1A) Companies will discuss how they determined *which ESG issues to report on, ...*
- 1C) Companies will disclose which ESG issues *they report on...*

If the word “material” is used, we suggest including language to explain that the meaning of “material” in the ESG context is broader than a narrow short-term financial focus. IR and GRI could be suggested as interpretive resources for this broader definition.

Question 3:

Companies engage in a variety of stakeholder engagement process, some specific to local operations. They do not need to explain about all their stakeholder engagement activities and processes at this level of reporting – **the focus here should be on the activities to determine ESG priorities and what to report on.** The text of 1B seems fine as is.

A reference to the disclosure topics in M2 could usefully be made under M1-1C, because by definition these topics ought to be prioritised unless there is a clear reason why they are not significant for the company (if they are covered by “comply or explain”). It would be appropriate to include in this section text along the lines that **"As part of this disclosure, companies should disclose if issues identified in M2 or generally seen as issue for sector are not significant and relevant due to the special circumstances of the company."**

Question 4:

It seems better if IR is **referenced as an interpretive resource, rather than written into the standard**, given the current state of flux in reporting principles and standards. Until it is fully defined, we cannot say if we fully support it!

Question 5:

It does not seem appropriate to definitely recommend initiatives that are still in preparation. It seems better if they are **referenced as interpretive resources, rather than written into the standard**, given the current state of flux in reporting principles and standards.

Section M2 (formerly M3):

The switch of M2 and M3 makes sense.

A few topics (such as Supply Chain, or Community Relations) are less relevant for some sectors, but absolutely essential for the sectors for which they are relevant. However, the “comply or explain” model allows companies to state that a particular issue is irrelevant for the sector. As noted above, the disclosure that an item on the M2 list is not relevant actually fits better among the M1 disclosures above.

Section M3 (formerly M2):

The switch of M2 and M3 makes it clearer that **the purpose of M3 is to help investors verify the existence of, and locate, the M2 disclosures (and any other key disclosures relevant to the company’s M1 assessment), which may be contained in various documents and websites**. However, this could be clarified in the M3 introductory text. The sentence “All such Index information shall be gathered in one document for ease of use” could be misinterpreted as “companies must prepare a CSR report including all this information” and should be reviewed.

The argument made by some on the recent call that investors can use tools like Bloomberg to locate disclosures is not acceptable. This goes against basic principles of investor protection and public disclosure. All investors - large and small, institutional and individual – should be enabled to locate public disclosures on key risks and opportunities facing companies.

Question 6:

We have no objection to mentioning GRI – from an investor work flow management perspective, it will be easier to locate disclosure if all companies are following the same index format. We also agree that studying the GRI Content Index will be educational and helpful for many companies that are new to ESG reporting. Given that the GRI Content Index is one of the only ready-made ESG index tools available to companies at this time, and that a large number of investors and companies are familiar with it or use it already, it should at least be referenced as a resource. As other initiatives develop, the resource list could be amended.

When referencing GRI, it should be clarified that:

- Companies do not need to produce a GRI report – they can just use the GRI Content Index to meet the M3 requirement to indicate the existence of, facilitate access to, ESG disclosures.
- Companies do not need to provide references for all the indicators, and do not need to provide reason for omission for indicators.
- Companies should indicate whether or not they have prepared the information in accordance with the GRI indicator **protocols**.

Whatever index is used, it should cover each of the M2 disclosure topics, as well as any other significant and relevant issues disclosed in M1-1C.

“Relevant information reported through M1 and M2 is to be included in the Disclosure Index” could be misunderstood as meaning that the information must be copied into the index. This should be clarified, for example “Relevant information reported through M1 and M2 is to be included or referenced in the Disclosure Index”.