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An Update on Canadian Corporate Performance on GHG Emissions Disclosures and Target Setting

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EXECUTIVE SUMMARY

The demand continues to heat up for better climate-related disclosures from companies. Much of impetus has come from investors and other financial institutions, who need information that is reliable, consistent and comparable in order to properly assess investment and lending opportunities and risks.

In recent months, regulators such as the Canadian Securities Administrators (CSA) and the Securities and Exchange Commission (SEC) in the United States have proposed new rules to improve climate-related disclosures. And many institutional investors have been setting transition targets for their portfolios in response to client and other stakeholder demands, as well as in recognition of the long-term implications to their portfolio holdings of not preparing for the major economic transformation in progress. There is evidence that once firms start reporting greenhouse gas emissions (GHG), they take actions to reduce them.

This report provides an important update on the progress of Canadian firms on climate commitments since ISF's 2021 study, "Assessing Current Canadian Corporate Performance on GHG Emissions, Disclosures and Target Setting". Researchers at the Institute for Sustainable Finance (ISF) have once again examined the firms in the S&P/TSX Composite Index, which includes more than 200 of the largest publicly listed companies in Canada. This study focuses on performance during the calendar year 2020, which we compare to the performance during 2019, analyzed in our 2021 report.

Overall, the results show that while there has been a significant improvement in the number of Index companies that have stated emissions reductions targets, and some improvement in announcing emissions reductions plans, there have only been slight improvements in GHG disclosures over the previous year and Canada still lags Europe and the UK on that measure. We would also note that as more firms adopt GHG emissions reductions targets, a much smaller percentage are taking the step of tying executive compensation to reaching climate targets. This is not a positive signal, since tying compensation to achieving climate goals is necessary to properly incentivize action.

Key findings:

- **Only 163 companies** (70.6% of the total number) provided GHG emissions disclosure information for 2020, which represents **only a slight improvement** from the results of our 2021 study that examined 2019 reported disclosures (150 companies or 67.6%). This puts Canada ahead of Japan (46%), slightly above or equal with the U.S. (55% to 67%), but well below Europe (79% to 89%) and the UK (99%) in terms of the percentage of firms during 2020 that report GHG emissions.
- **120** out of 231 TSX Index companies (or **52%**) have stated emissions reduction targets, which is exactly **twice the number** of companies that had targets during 2019 (i.e., 60). So, this represents an area of **significant improvement**. Unfortunately, Canadian firms still don't appear to be keeping pace internationally. The percentage of firms with targets is still slightly below the 2020 figure for S&P 500 Index companies of 53%, and is even further below the figure of 67% for FTSE 100 Index firms and 77% for Dow Jones Index companies.
- It is notable that the larger, more emissions heavy firms tend to have targets and so, emissions targets have been established for companies representing two-thirds of the estimated emissions from TSX Index companies. Based on the estimates in the study, a substantial proportion of the emissions associated with TSX Index firms would be eliminated if the companies with stated emissions reductions targets meet them. The 2030 estimate of emissions reductions for the 120 companies with targets would total 121.4m (million tonnes of CO_2), representing a 45.4% reduction from the 2020 emissions total of 267.3m for these 120 firms. The estimated reduction further represents 30% of estimated TSX Index emissions for 2020 of 405m, and would reduce this total to 283.6m, all else being equal.

- Among the 120 firms with targets, we classify 29 (24%) of the 120 stated company plans as very detailed, versus nine (15%) of 60 last year. So, this represents a **marked improvement**. We further classify 67 (56%) as providing some level of detail, versus 37 (62%) last year. So overall, we observe 96 firms (80%) as providing very detailed or some level of detail for their plans versus 46 (77%) last year — a similar total percentage, but a much higher percentage of firms with very detailed plans.
- Our results show that only 17 companies (14%) with stated targets have compensation tied directly to GHG reduction targets versus 15 (25%) last year, only a slight rise in the absolute figure and a notable decline in the percentage of firms. We also find that only 35 (29%) have compensation that is loosely related to climate-related issues, a significant decline in percentage versus 47% last year. Finally, we observe a significant increase in both the number and percentage of companies that have no specified link to compensation to 68 (57%) versus 17 (28%). This is **not a positive signal,** since tying compensation to achieving climate goals is necessary to properly incentivize action.

The largest Canadian firms are responding to signals from investors and regulators that GHG emissions targets and reduction plans are a necessity. But Corporate Canada still needs to up its game. As a whole, Canadian companies will need to increase GHG disclosures, establish more meaningful reduction targets, and increasingly tie compensation to reduction targets in order to keep pace with investor expectations and with global best practices.