Should Issuers Be Required to Improve their Climate-related Financial Disclosures?

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What is the Environmental Performance of Canadian issuers?

• To measure Environmental Performance use what the capital markets use – ‘E score’

• Report this for Canadian firms and compare it against a global Benchmark

For more details, see Alexander Dyck and Lukas Roth, “Backgrounder: Environmental Performance of Canadian Firms”
In Canada, Industry and Size drive E scores

All Canadian firms with Thomson Reuters ASSET4 and Datastream/Worldscope coverage. Industry definition based on SIC Codes.

Overall Environmental Score by Industry

Overall Environmental Score by Firm Size for Mining/Oil & Gas

All Canadian firms with Thomson Reuters ASSET4 and Datastream/Worldscope coverage. Mining: SIC Code 10-14, including metal, coal, oil and gas. Firm size is measured with total assets.
Canadian issuers near bottom vs. global comparison

Overall Environmental Score

Overall Environmental Score: Size and Industry Adjusted

All firms with Thomson Reuters ASSET4 and Datastream/Worldscope coverage. Countries with N<20 in 2008 are excluded.

The graph shows the residuals of a regression of scores on total assets and industry. Countries with N<20 in 2008 are excluded.
Despite improvements, below global peers
Similar under-performance compared to global sample in climate-related disclosures

Emission Reduction

Resource Reduction

All firms with Thomson Reuters ASSET4 and Datastream/Worldscope coverage. Constant panel.
Policy: Does the company have a policy for reducing environmental emissions?
Implementation: Does the company describe the implementation of its emission reduction policy?
Improvements: Does the company set specific objectives to be achieved on emission reduction?

Policy: Does the company have a policy for reducing the use of natural resources?
Implementation: Does the company describe the implementation of its resource efficiency policy?
Improvements: Does the company set specific objectives to be achieved on resource efficiency?
Why do we observe these trends in Environmental Performance?

• Is this happening because *investors* are asking firms to make these changes?

• Are investors motivated by *financial or other* reasons?
E scores are improving because institutional investors are asking for it. Growing over time as events show financial value.

$61.6 billion

High E firms did better during crisis.

Not all investors push equally hard for more Environmental performance

- Long-horizon pension plans push most
- Short-horizon hedge funds least
- Investors that commit (UNPRI) have biggest impact

Also a role for **social factors** in strength of push for improved E scores

*Foreign Investor Impact on Overall Environmental Score*

<table>
<thead>
<tr>
<th>Region</th>
<th>Percentage Change in Score</th>
</tr>
</thead>
<tbody>
<tr>
<td>Europe</td>
<td>4.0%</td>
</tr>
<tr>
<td>Americas</td>
<td>2.0%</td>
</tr>
<tr>
<td>Asia/Australia</td>
<td>1.0%</td>
</tr>
<tr>
<td>Africa</td>
<td>-1.0%</td>
</tr>
<tr>
<td>Weak Social E Norms</td>
<td>-2.0%</td>
</tr>
<tr>
<td>Strong Social E Norms</td>
<td>0.0%</td>
</tr>
</tbody>
</table>

One reason for Canadian issuer weak performance, Canadian investors much weaker push
Takeaways?

• There is a gap between Canadian issuers and their global peers (who despite higher disclosure/performance remain viable).
• Trends of improvement. But no evidence gap is shrinking.
• Industry focus and size of Canadian issuers do not explain under-performance

• Private solution is working. Investors, recognizing materiality of E performance are demanding more, and firms are responding.
• But, we also find big variation across firms, investors and countries. Relying on investors will mean road slower and more variable, and market adaptations are imperfect.
Climate Change Emission Data show some limits to voluntary reporting, and market efforts to address

- Only half of Thomson Reuters report CO2 emission data