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

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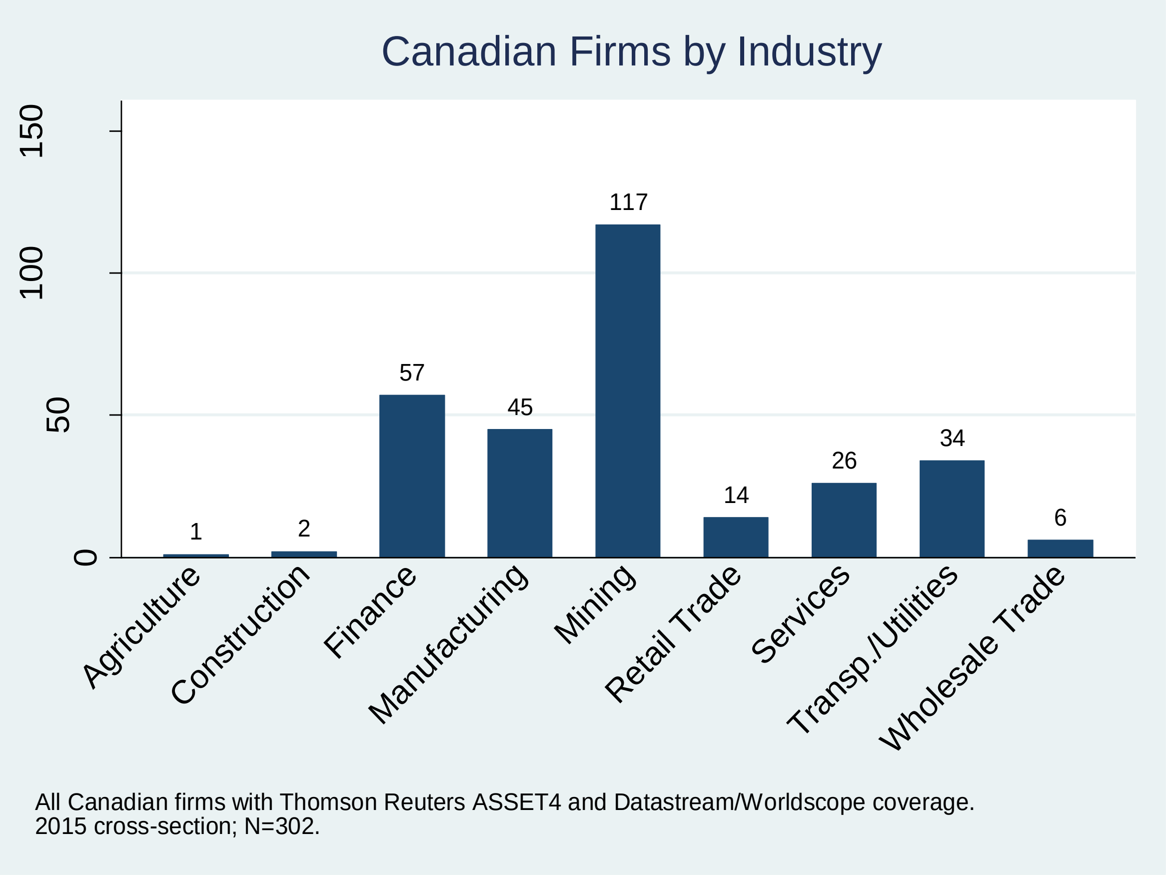
November 2017

What is the Environmental Performance of Canadian issuers?

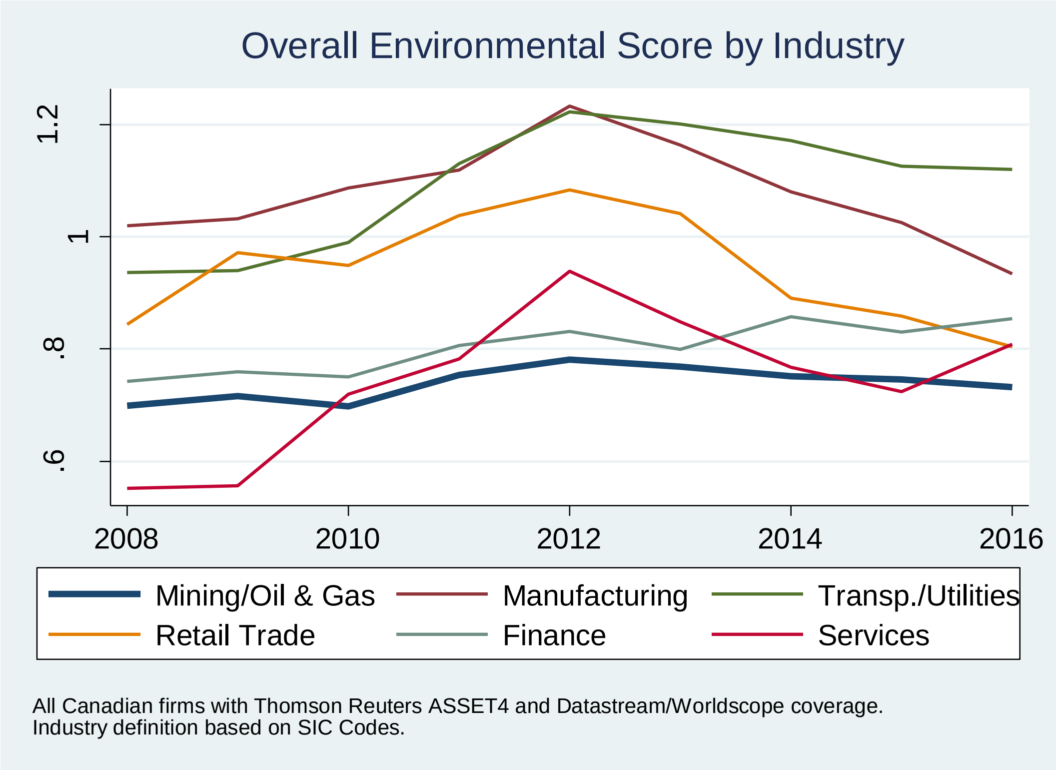
- To measure Environmental Performance use what the capital markets use – **‘E score’**

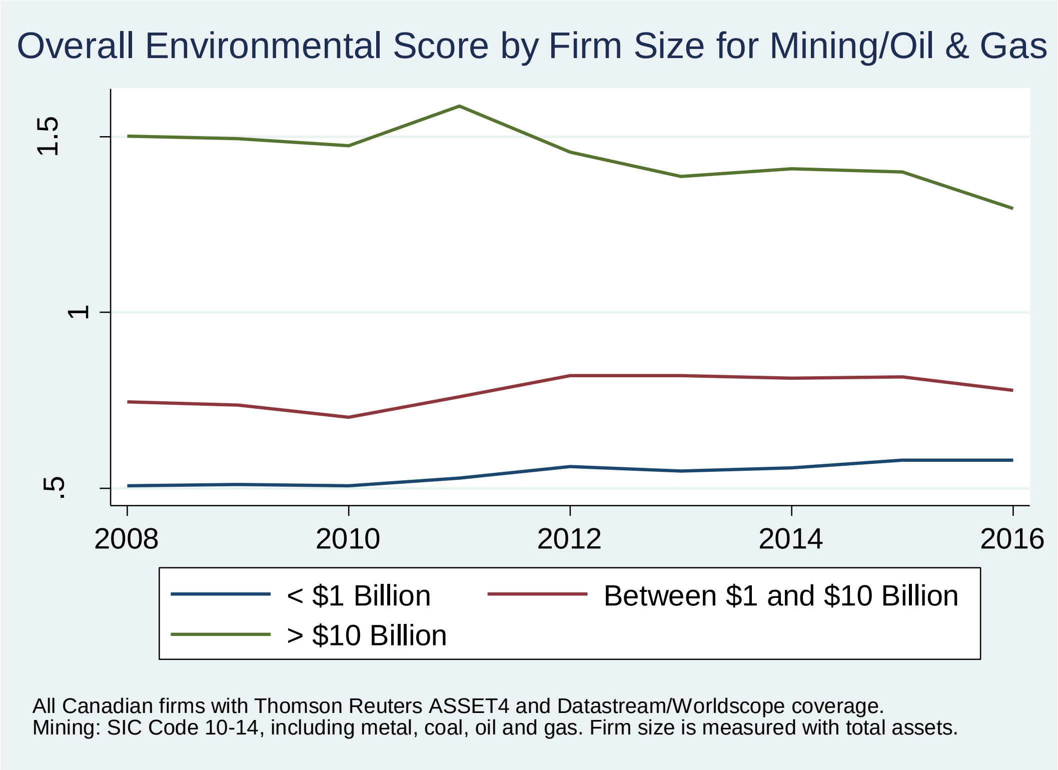
- Report this for Canadian firms and compare it against a global Benchmark



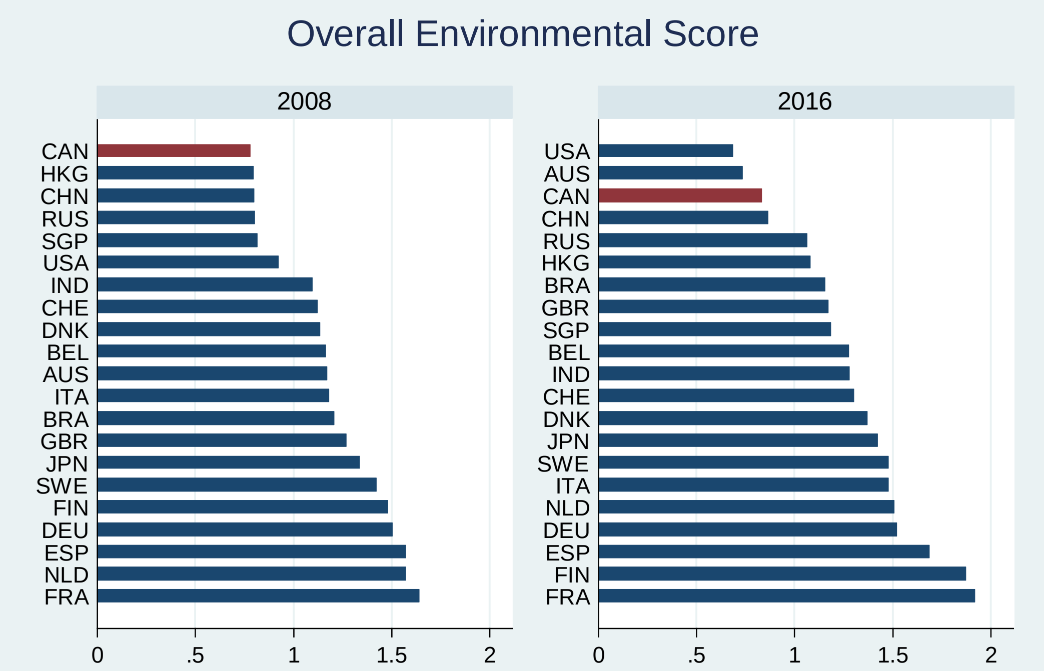
For more details, see Alexander Dyck and Lukas Roth, “Backgrounder: Environmental Performance of Canadian Firms”

In Canada, Industry and Size drive E scores

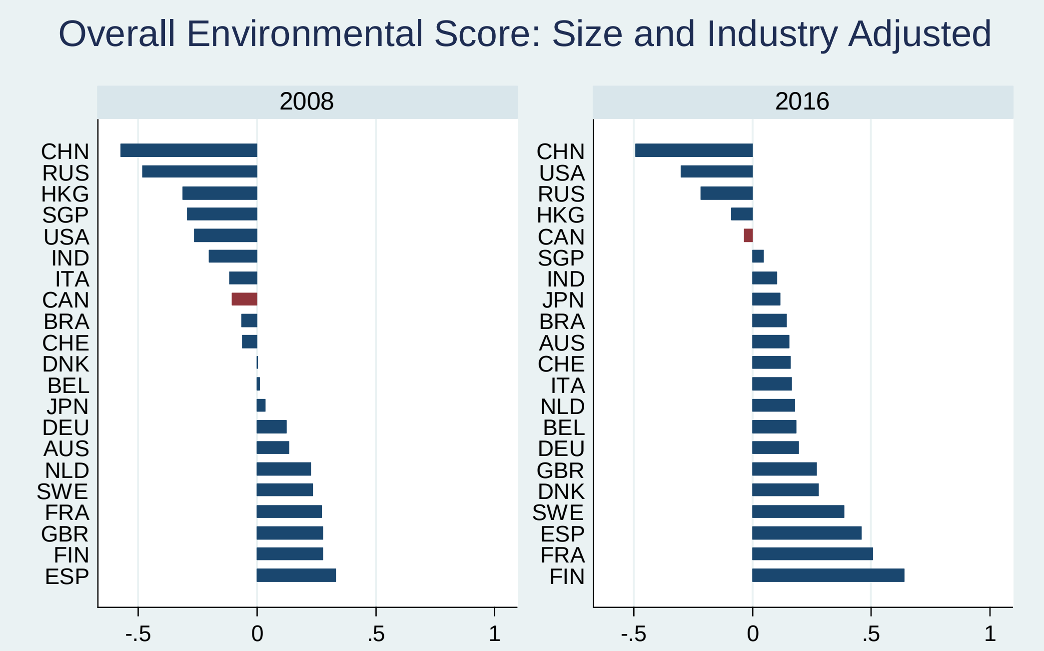




Canadian issuers near bottom vs. global comparison

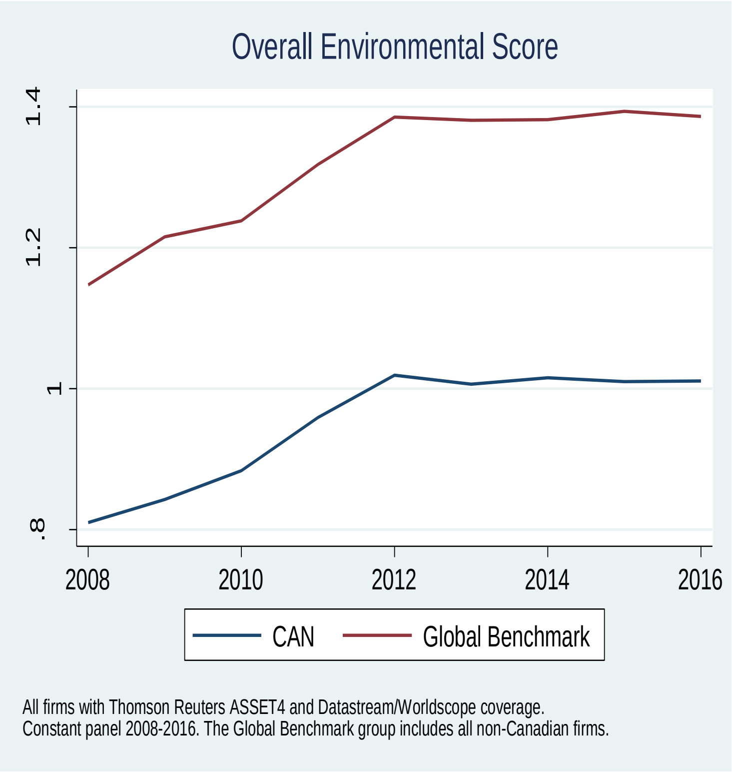


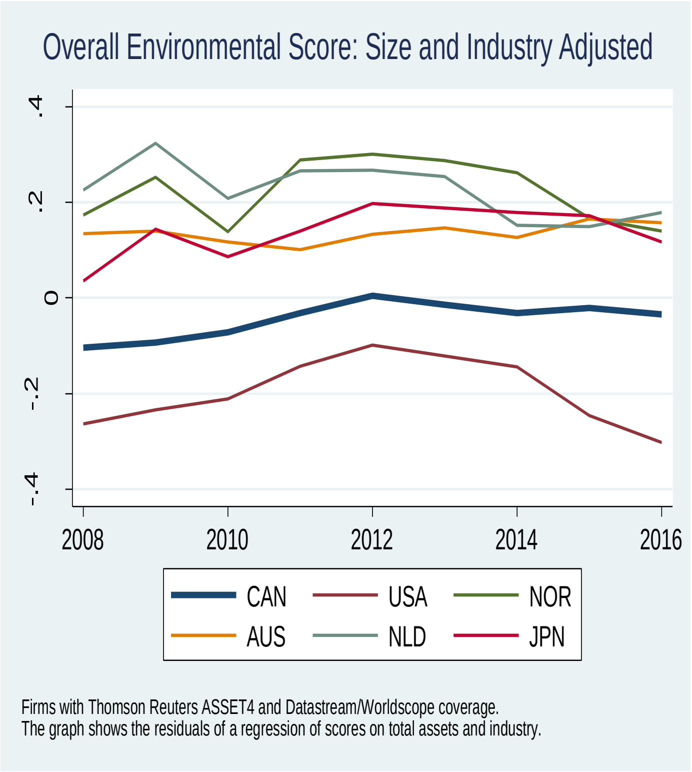
All firms with Thomson Reuters ASSET4 and Datastream/Worldscope coverage.
Countries with N<20 in 2008 are excluded.

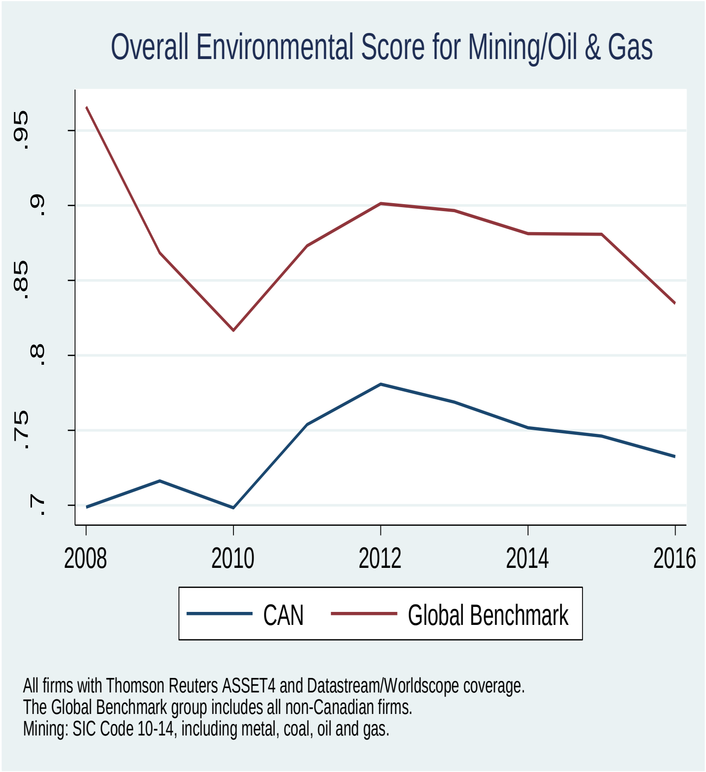


All firms with Thomson Reuters ASSET4 and Datastream/Worldscope coverage.
The graph shows the residuals of a regression of scores on total assets and industry.
Countries with N<20 in 2008 are excluded.

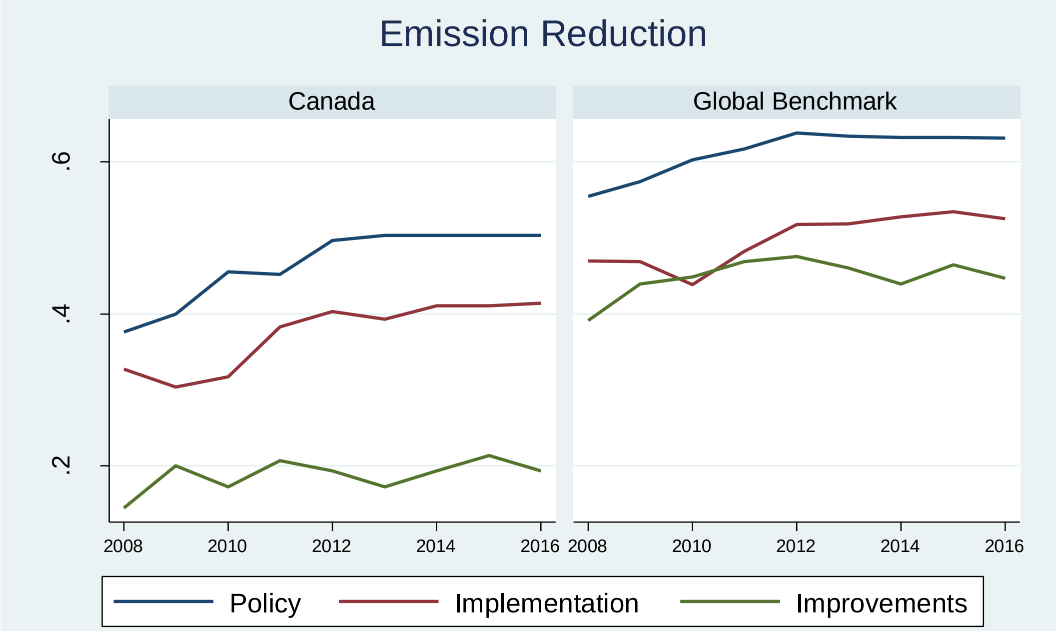
Despite improvements, below global peers



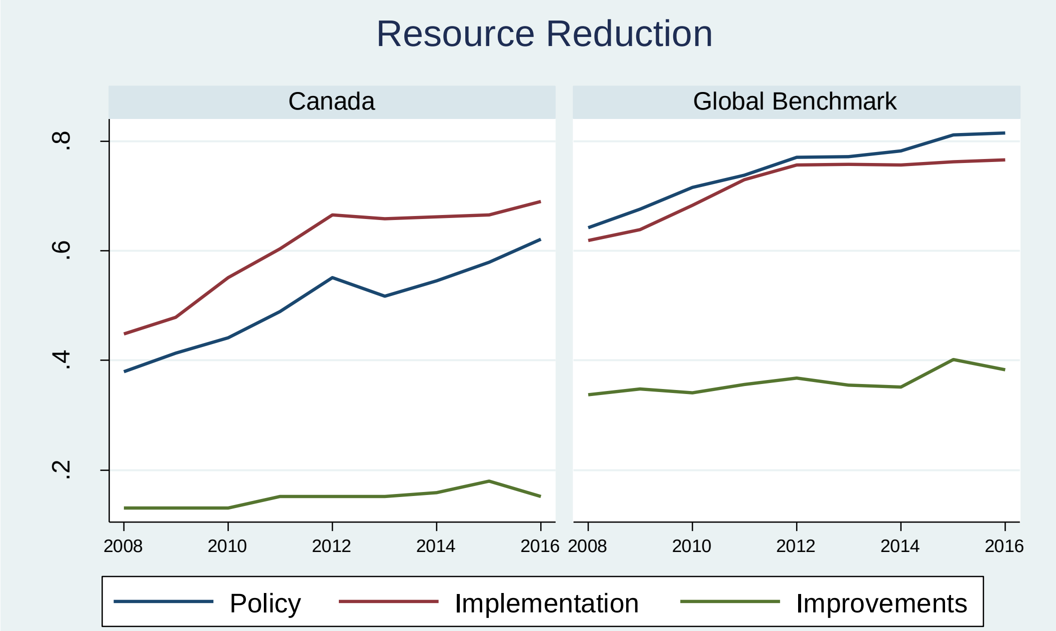




Similar under-performance compared to global sample in climate-related disclosures



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?



All firms with Thomson Reuters ASSET4 and Datastream/Worldscope coverage. Constant panel.
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?

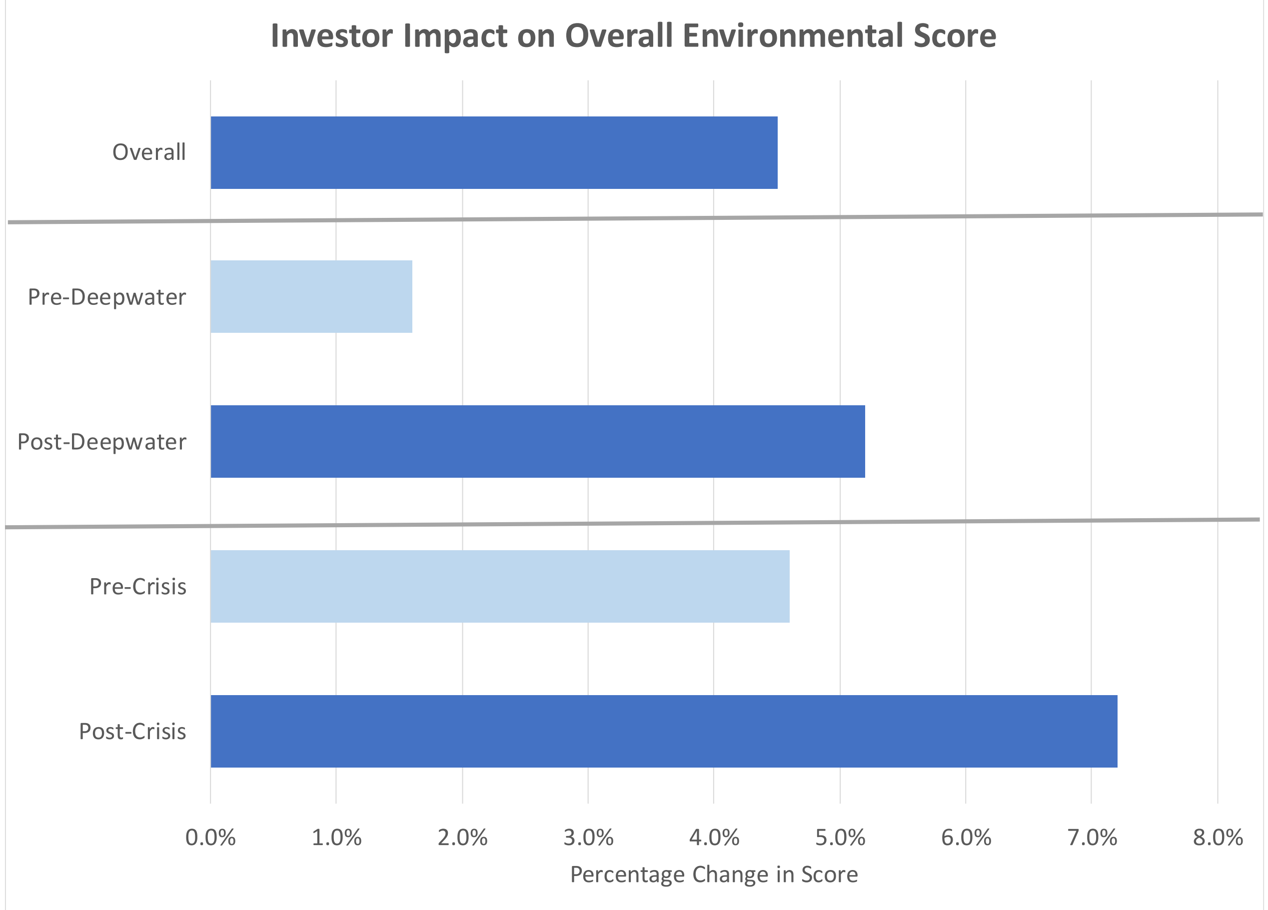
- Is this happening because **investors** are asking firms to make these changes?

- 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

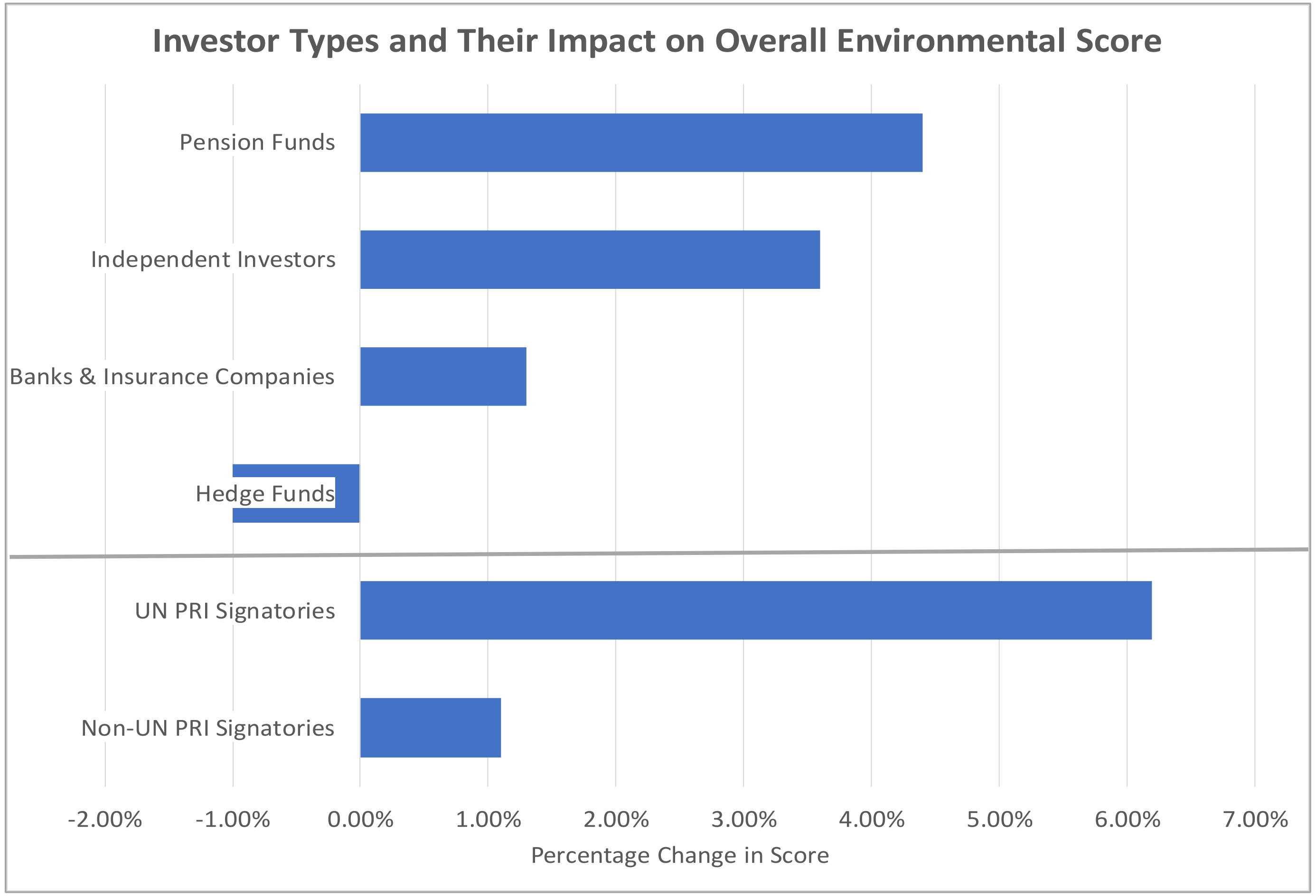
High E firms did better during crisis



Source: Dyck, Lins, Roth and Wagner, "**Do Institutional Investors Drive Corporate Social Responsibility? International Evidence**"

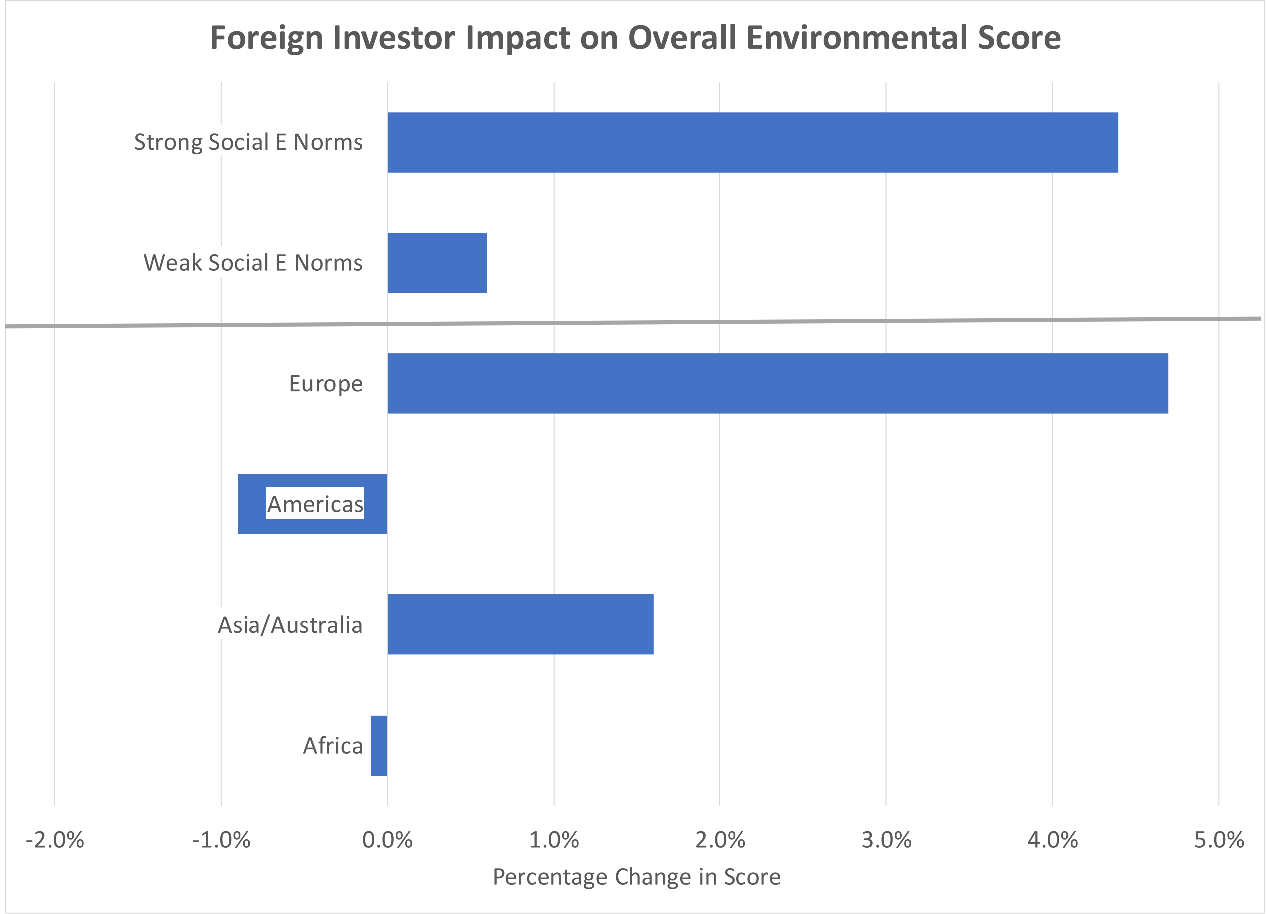
Not all investors push equally hard for more Environmental performance

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



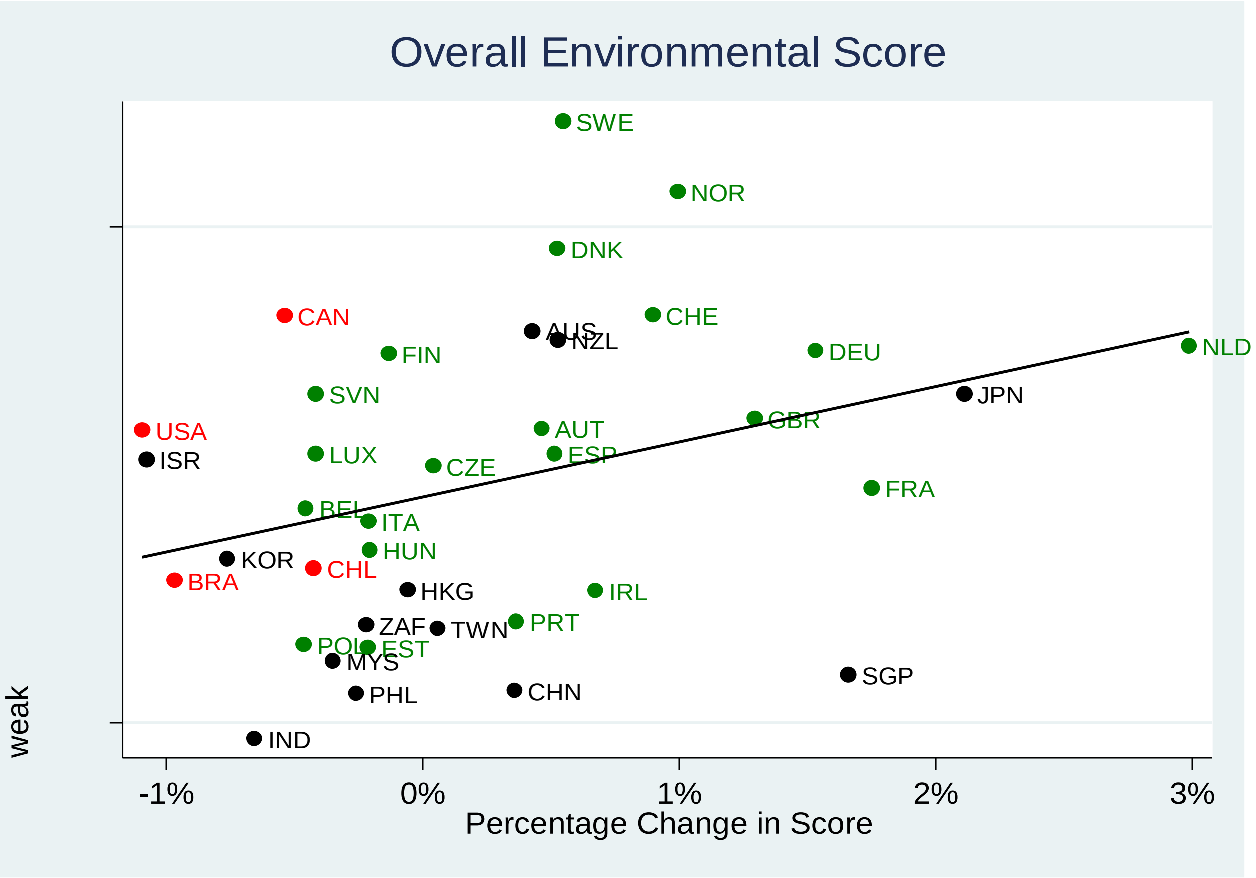
Source: Dyck, Lins, Roth and Wagner, "**Do Institutional Investors Drive Corporate Social Responsibility? International Evidence**"

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



Source: Dyck, Lins, Roth and Wagner, "**Do Institutional Investors Drive Corporate Social Responsibility? International Evidence**"

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



Source: Dyck, Lins, Roth and Wagner, "**Do Institutional Investors Drive Corporate Social Responsibility? International Evidence**"

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

Our patented models are fully transparent providing you with an estimated value when a reported value is not available.

The Carbon Data & Estimate model is structured around four steps.

Each model returns one value (reported or estimated). In the listing that follows we use one of the following four numbers:

1. **Reported:** If available, we provide the reported CO2 Emissions data from the company[1]. If there is available carbon emission data reported by the company then the model stops there.
2. **CO2 Model.**
3. **Energy Model.**
4. **Median Model.**