July 29, 2022

IFRS Foundation
Columbus Building
7 Westferry Circus
Canary Wharf
London E14 4HD, United Kingdom
Emmanuel Faber, ISSB Chair
Sue Lloyd, ISSB Vice-Chair

Dear Chair Faber and Vice-Chair Lloyd,

Re: Exposure Draft IFRS S1 (*General Requirements for Disclosure of Sustainability-related Financial Information*) and Exposure Draft IFRS S2 (*Climate-related Disclosures*)

TMX Group Limited ("**TMX Group**" or "**we**") welcomes the opportunity to comment on Exposure Draft IFRS S1 (*General Sustainability-Related Disclosure Requirements*) (the "**General Requirements**") and Exposure Draft IFRS S2 (*Climate-related Disclosure Requirements*) (the "**Climate-related Requirements**" and together with the General Requirements, the "**Exposure Drafts**"), published by the International Sustainability Standards Board (the "**ISSB**") in March 2022.

Climate change is a pressing global issue, representing not only a long-term threat to lives and ecosystems but to economic prosperity and growth. The impacts of a changing climate are becoming apparent from a societal, and increasingly, financial perspective while global efforts to transition to a low-carbon economy are intensifying. At the same time, there is growing demand for clear and internationally consistent disclosures of sustainability-related information to support capital-allocation decisions relating to transition activities and sustainability-related risks and opportunities. TMX Group is of the view that the use of a single internationally-recognized baseline reporting standard is critical and will, over time, result in the availability of high-quality, comparable and robust sustainability-related information from issuers while reducing the confusion and lack of clarity from the adoption of multiple disclosure regimes, as well as the costs and market fragmentation for investors that are associated with navigating multiple disclosure frameworks. The Exposure Drafts represent a significant milestone in encouraging issuers to provide decision-useful sustainability-related financial disclosures to their investors and other stakeholders and, once finalized, we anticipate playing a key role in the eventual adoption of the ISSB standards within Canadian capital markets.

To this end, TMX Group strongly supports the establishment of the ISSB and its mission. We were a member of the coalition of Canadian private and public institutions (including the Government of Canada) that backed Canada's successful bid to host the global headquarters of the ISSB and are pleased to support the establishment of the Montreal office. Furthermore, we are supportive of standard-setting initiatives that are aligned with the recommendations of the Financial Stability Board's Task Force on Climate-Related

Financial Disclosure ("**TCFD**") and we endorse sustainability-related disclosures that are informed by, and aligned with, the industry-specific standards set by the Sustainability Accountability Standards Board ("**SASB**"). In this respect, we are pleased to see components drawn from both TCFD and SASB in the Exposure Drafts. In 2020, TMX Group was the first exchange group to report under SASB's Security & Commodity Exchanges standard and, in 2021, TMX Group published its first TCFD-aligned report.

Feedback on Exposure Drafts

TMX Group is strongly focused on supporting and promoting innovation, capital formation, good governance and financial markets in Canada and globally through its exchanges. Toronto Stock Exchange ("**TSX**") is a globally recognized stock exchange that lists growth-oriented companies with strong performance track records and is a top-ranked destination for global capital. TSX Venture Exchange ("**TSXV**" and, together with TSX, the "**Exchanges**") is Canada's leading global capital formation platform for growth stage companies looking to access public venture capital to facilitate their growth, and is an important part of Canada's vibrant and unique capital markets continuum. Together with all of our stakeholders, we are deeply committed to making markets more inclusive and sustainable; leading on issues of importance to our clients and the broader ecosystem; and advocating for conditions that drive economic growth and competitiveness. For context, it is important to note that more than two-thirds of the combined stock list of TSX and TSXV are small- and medium-sized enterprises, giving TMX Group a globally unique perspective on the challenges faced by public companies that are also SMEs.

We outline specific feedback below on the Exposure Drafts for the ISSB to consider. Our comments bear in mind the importance of, and demand for, a global baseline of sustainability-related disclosures, while recognizing that producing these disclosures in a meaningful and useful manner presents challenges and represents an additional regulatory burden to issuers that may already be overburdened. Broadly speaking, our comments emphasize the need for: (i) a carefully designed phase-in approach that recognises the considerable time, talent and resources that will be required by all issuers, and SMEs in particular; (ii) illustrative and practical guidance to assist issuers in reporting under the new standards, especially as clear practices emerge following implementation; and (iii) consideration of the level and availability of information needed from an issuer's value chain which could be challenging to obtain (particularly within the proposed reporting timeline) and that could make disclosures such as Scope 3 emissions challenging to produce. We believe that the foregoing are necessary to prevent the release of disclosures that superficially meet the requirements but which lack depth. At an extreme, this may encourage "green-washing" and boilerplate disclosures that lack specificity or comparability and are therefore of limited value to investors.

Objective (General Requirements, Question 2): The definition of "sustainability-related financial information" is unclear without additional guidance on what information constitutes "sustainability" in the General Requirements. The lack of definitional clarity tempers the ability of investors to compare disclosures between any two entities in the same industry, let alone across industry sectors. Vagueness in definitions may likely encourage the use of broad, unfocussed boilerplate disclosure. We encourage the ISSB to provide industry-specific examples of the types of sustainability-related information that could be material to an issuer on an enterprise value basis and, more broadly, we believe that additional illustrative guidance on materiality in the context of sustainability information would be beneficial. The absence of a clear understanding of “sustainability-related financial information” will lead to inconsistent application of the new standards and pose challenges in having such disclosures independently audited and assured. Finally, the lack of a definition for “significant” before “sustainability-related risks and opportunities" in the Exposure Drafts may result in confusion as to how issuers might distinguish between risks and opportunities that are “significant” vs. “material”.

Materiality (General Requirements, Question 8): We support the alignment of the definition of “materiality” with the definition in the IFRS Conceptual Framework and IAS 1, which will facilitate the connectivity between sustainability-related reporting and financial statements. We note that there are a few instances of inconsistency between this understanding of materiality and the text of the General Requirements. For example, the General Requirements state that “sustainability-related risks and opportunities that cannot reasonably be expected to affect assessments of an entity’s enterprise value by primary users” are outside the scope of the General Requirements. There are, however, circumstances in which information that does not affect a primary user’s assessment of enterprise value could, nevertheless, influence their investment decisions. Paragraph 57 of the General Requirements states that material sustainability-related financial information is information that “provides insights into factors that could reasonably be expected to influence primary users’ assessments of an entity’s enterprise value” which is not the same as the more generally accepted interpretation of materiality which speaks to the information’s influence on investor decisions. Finally, we support the use of the “dynamic materiality” concept to capture sustainability-related financial information that becomes, or may become, financially material in future reporting periods.

We agree that issuers should be relieved from disclosing information otherwise required by the Exposure Drafts if local laws or regulations prohibit the issuer from disclosing that information. This will avoid jurisdictions making amendments to ISSB standards to comply with legal requirements.

Frequency of Reporting (General Requirements, Question 9): In principle, we believe that it is appropriate to request the release of sustainability-related financial disclosures on an annual basis and, where possible, in conjunction with the annual financial report. While we acknowledge the benefit of providing sustainability-related financial disclosures contemporaneously with the financial statements to which they relate, we note that the availability of certain data (particularly GHG emissions or other data provided by third-parties along an issuer’s value chain) may not coincide with existing reporting timelines. We therefore support the concept of allowing some flexibility within the General Requirements to accommodate such circumstances on a jurisdictional basis. A requirement to report and disclose more than once per financial year may be unnecessarily burdensome and costly, particularly for growth-stage companies.

Location of Information (General Requirements, Question 10(c)): We agree with the proposal that information required by IFRS Sustainability Disclosure Standards can be included by cross-reference provided that the information is available to users of general purpose financial reporting on the same terms and at the same time as the information to which it is cross-referenced (which, as noted above, may not be the case for all issuers).

Costs, Benefits and Likely Effects (General Requirements, Question 16): We believe in the importance of establishing global baseline standards to guide data providers in producing comparable and consistent sustainability-related financial disclosures to assist data consumers. We are encouraged by the ISSB's efforts to develop standards that will assist issuers in producing internationally consistent, comparable and decision-useful disclosures. It must be acknowledged, however, that the introduction of the proposed ISSB standards will require significant investments of time and resources by all issuers. In order to deliver meaningful sustainability-related financial disclosures that align with the proposed standards, issuers will need to build specific internal capabilities and/or hire external parties to collect and refine sustainability-related data as well as develop expertise and processes for incorporating sustainability-related issues within their decision-making and reporting structures.

We strongly encourage the ISSB to take a flexible approach in both the timing of adoption and scope of reporting, especially with regard to reporting by SMEs. Lack of flexibility, including a lack of phase-in or adjustments based upon the scale of the reporting entity will likely result in the production of information that is less useful than is intended. Larger and more sophisticated issuers may take an iterative approach to integrate the new requirements into their mainstream reporting structures and many will rely on the guidance and specialized knowledge of third parties (such as consultants or external legal counsel) to ensure that they are producing high-quality and bespoke disclosures that are compliant with the proposed standards. However, the added regulatory burden will be proportionally greater for smaller companies, including SMEs, many of which do not have the technical readiness, available capacity, or resources to implement the processes necessary to deliver these new disclosures. For example, and based on feedback received from smaller issuers on TSXV, we know that many are still in the early stages of emissions reporting. Accurately reporting scope 3 emissions in particular, may be challenging for SMEs as many do not yet have the capability to obtain the necessary data from third-parties along their value chains. Similarly, completing effective and decision-useful scenario analysis will pose challenges for many issuers and we note that such analyses are still evolving across sectors. Without making some accommodation for these differences, which are likely to be accentuated as a function of the scale of the reporting entity, the intended goal of the disclosure regime is likely to be short-circuited. While we agree with the proposal in paragraph 15 of the Climate-related Requirements to permit issuers to use alternative methods to assess climate resilience, issuers may find the disclosure requirements set out in paragraph 15(b)(ii) to be overly burdensome and challenging if they do not have the resources or technical expertise. In addition, the use of a variety of alternative assessment methods by reporting entities may impede the benefits of this type of disclosure as it decreases data comparability. Simplifying the non-scenario analysis disclosure requirements or a limited-time comply or explain model may be more appropriate at this time. The disclosure requirements set out in paragraph 15(b)(ii) should be positioned as directional disclosure guidance rather than mandatory, as currently proposed.

Further, any global standard must strive to be interoperable with existing jurisdiction-specific reporting standards, regulatory and legislative regimes, and domestic public policy goals. Local jurisdictions will require time to develop implementation plans and devise transitional arrangements.

In light of the foregoing, and notwithstanding the need to swiftly adopt globally accepted sustainability-related financial disclosure standards, we believe that an appropriate and realistic transition period should be built into the implementation of the proposed ISSB standards. This will permit issuers to build the aforementioned skills and capabilities, and allow regulators to integrate the ISSB standards within their existing sustainability, corporate and securities law arrangements. Further, we believe that it will be vital for the ISSB to continually supplement the proposed standards with regular, fulsome and industry-specific guidance and examples for issuers as to how they might approach the preparation of the required disclosures in order to avoid "green-washing" and boilerplate disclosures.

Finally, we believe it is worth repeating that the vast majority of companies listed on TMX exchanges, and in particular TSXV, are in fact SMEs. While we are proud that Canada's largest public companies call the Exchanges home, we do feel a duty to ensure the perspective of the balance of our issuers is also heard as part of this process. Many of our issuers have repeatedly expressed concern that the added burden that these sustainability-related disclosures place on growth-stage public companies puts them at a disadvantage relative to privately-owned competitors of comparable size and maturity, to whom the new standards may not apply. This underscores the need for a transition period and tailored approach, such as alternate timelines and disclosure guidelines for companies of a given size, to help ameliorate an otherwise unlevel playing field between public and private growth-stage companies.

Governance (Climate-related Requirements, Question 2): While we acknowledge that the proposed disclosure requirements on the skills and competencies of an issuer that are available to oversee strategies designed to respond to climate-related risks and opportunities builds on the "governance" pillar of TCFD requirements, we note that there are currently considerable workforce skills gaps (at both management and board levels) at many companies on climate-related matters. It may be difficult for the boards and management teams of smaller issuers to retain and compensate dedicated climate-experienced directors. This disclosure requirement may increase the risk that directors who do have these skills face pressure to "over-board". We urge the ISSB to accommodate such circumstances by permitting issuers to explain and justify their approach to ensuring that their boards have the appropriate climate-related skills and competencies for their size and industries.

Concentrations of climate-related risks and opportunities in an entity's value chain (Climate-related Requirements, Question 4(a)): In our view, the definition of "value chain" set forth in the Climate-related

Requirements is overly broad. Obtaining (and then evaluating) data from third-parties along an issuer's value chain for this purpose is unnecessarily burdensome and costly without more guidance on how far upstream and downstream they need to gather information. An issuer's ability to disclose this information may also be bound by the quality and availability of the relevant data from their suppliers and customers within the reporting timeframe. We recommend that the evaluations of value chain risks and opportunities are limited to those which enable users of general-purpose financial reporting to assess an issuer's enterprise value.

Transition plans and carbon offsets (Climate-related Requirements, Question 5): We believe that it is reasonable for issuers to disclose their transition plans and that the Climate-related Requirements should encourage issuers to report on their operations-related carbon reduction strategy and targets separate from their plans to purchase carbon offsets. Issuers should also be required to disclose whether the carbon offsets are "avoidance offsets" or "removal offsets" so that data consumers can determine the extent to which an issuer's strategy is one of carbon avoidance (with actions that directly reduce emissions) versus a strategy that relies more heavily on carbon offsets (which transfers emissions rather than reducing them).

Conclusion

The Exposure Drafts are a strong starting point from which global baseline standards can be developed and TMX Group is proud to support the eventual implementation and widespread adoption of these standards. This work will help ensure that investors and other stakeholders can access high-quality, comparable and robust sustainability-related financial disclosures while reducing costs and complexity for issuers. We appreciate the ISSB's consideration of our comments and suggestions and we would be happy to discuss these at greater length with the appropriate representatives. Please do not hesitate to contact us if you have any questions regarding our comments.

Respectfully submitted,

(signed) *John McKenzie*

John McKenzie
Chief Executive Officer

About TMX Group

At TMX Group, our mission is to make markets better and empower bold ideas. We operate global markets and build digital communities and analytic solutions that facilitate the funding, growth and success of businesses, traders and investors from around the world. TMX Group's key operations include TSX, TSXV, TSX Alpha Exchange, The Canadian Depository for Securities, Montréal Exchange, Canadian Derivatives Clearing Corporation, and Trayport which provide listing markets, trading markets, clearing facilities, depository services, technology solutions, data products and other services to the global financial community. TMX Group is headquartered in Toronto and operates offices across North America (Montréal, Calgary, Vancouver and New York), as well as in key international markets including London, Vienna and Singapore.