



Silver Lining

INCREASED DISCLOSURE IN CLIMATE CHANGE REPORTING IS WELCOME NEWS FOR INVESTORS. BY DON RAYMOND

The unprecedented turmoil in financial markets and economies around the world has drastically changed the mindset of both financial and political policy-makers. However, at least three things seem certain. First, in time, this crisis will eventually be followed by economic growth. Second, when investors and lenders return to the markets, they will do so with a greatly heightened sensitivity to risk. And third, despite the intensive de-leveraging and de-risking efforts taking place across global markets, at least one category of risk—the regulatory risks associated with climate change—will be overlooked while the world’s attention is otherwise engaged.

capitalization of the Toronto Stock Exchange’s top 200 companies. In addition to a growing number of responses, the quality of climate change-related disclosure has also increased significantly.

There is still room for improvement, but it is important to note that most major emitters and large companies are now providing information on strategy and performance to the CDP. In a market environment in which risk and uncertainty will be scrutinized more than ever before, factors such as the transparency and enhancement of disclosure on climate change could take on even greater significance. Of course, this may take time, as markets remain volatile and global economies struggle to realign themselves.

Understanding how changing regulatory regimes, disruptive technologies and potential carbon costs could affect a business is critical to the assessment of long-term risk and return.

Importance of Engagement

The CPP Investment Board has engaged directly with companies to encourage them to respond to the CDP’s annual survey because, as stated in its *Policy on Responsible Investing*, “we believe that responsible corporate behaviour with respect to environmental, social and governance (ESG) factors can generally have a positive influence on long-term financial performance.” Enhanced disclosure on climate change-related risks is one differentiator for issuers in the competition for capital.

Through the work of the CDP and others—including the Canadian Institute of Chartered Accountants, which recently published guidelines for the inclusion of climate change-related disclosure in the Management’s Discussion & Analysis section of a company’s annual report—investors will be both forewarned and forearmed about climate change-related risks and opportunities.

While investors do need to focus on the current market environment, one area of opportunity lies in analyzing the responses to the CDP to gain insight into the likely winners and losers of this critical long-term investment factor. Companies and boards that have yet to examine the quality of their climate change-related disclosures should undertake this analysis. In a carbon- and risk-constrained world, their ability to attract stable, long-term capital could depend on it. **BC**

For long-term investors such as the Canada Pension Plan (CPP) Investment Board, understanding how changing regulatory regimes, disruptive technologies and potential carbon costs could affect a business is critical to the assessment of long-term risk and return.

Carbon Disclosure Project

In the fall of 2008, the Conference Board of Canada unveiled the *Carbon Disclosure Project (CDP) Report 2008: Canada*, which details Canadian responses to the CDP’s annual survey of global corporations. The CDP represents 385 institutional investors from around the world with a combined asset base of US\$57 trillion. As such, it is an important catalyst for encouraging companies to assess and disclose the potential impact of climate change-related risks and opportunities on their operations.

This year, 103 companies responded to the CDP survey, representing 77% of the market

Don Raymond is senior vice-president, public market investments, with the CPP Investment Board, a sponsor of and signatory to the CDP.