June 10, 2024
Canadian Sustainability Standards Board

Submitted via https://connect.frascanada.ca/cssb-adoption-of-csds-1-and-csds-2/surveys/cssb-survey-csds-1-and-2

Re: Comments on the CSSB Canadian Consultation on Adoption of CSDS 1 and CSDS 2

NEI provided the comments below in response to the Canadian Sustainability Standards Board (CSSB) consultation on the proposed adoption of Canadian Sustainability Disclosure Standard (CSDS) 1 and CSDS 2. The submission was made via an online survey. The original survey questions and content have been modified for flow, but NEI responses have been included in full.

Scope of proposed CSDS 1
Apart from effective date and transition relief, CSDS 1 proposes to adopt IFRS S1 without amendment. Accordingly, the CSSB proposes that CSDS 1 and CSDS 2, once finalized, become effective on the same date; however, the Board proposes extending the one-year transition relief within IFRS S1 to two years for disclosures beyond climate-related risks and opportunities.

Do you agree that the two-year transition relief for disclosures beyond climate-related risks and opportunities is adequate?

Yes.
We strongly support the adoption of CSDS 1 to best align with the ISSB's goal of creating a "comprehensive global baseline of sustainability-related financial disclosures(link to consultation doc)." It is of paramount importance that Canadian markets are aligned with international standards when it comes to the provision of consistent, comparable, and decision-useful information in the interests of maintaining access to international capital. The CSSB and Canadian regulators should endeavour to ensure that implementation of CSDS 1 is not unduly delayed.

In granting a two-year transition relief, we want to be clear as to the implications of this transition relief regarding the regulation of mandatory reporting standards. It is our explicit interest to see both CSDS 1 and CSDS 2 adopted by the CSA in a reasonable timeframe, while acknowledging the desire of regulators to adopt climate-related standards first. As such, the transition period for mandatory reporting on CSDS 1 should be no more than two years from the start of mandatory reporting on CSDS 2, and our preference is for the one year of relief as provided in IFRS S1. In other words, we would not want to see an extended period of delay for the implementation of CSDS 1 by the CSA lest Canada risk falling behind international consensus, which will impact on Canadian competitiveness.

Considering that many investors have been asking companies for material sustainability-related disclosures along the lines of what CSDS 1 is proposing for the better part of two decades, and that a significant number of Canadian companies are already providing this type of disclosure, we do not think it is unreasonable to

151Yonge Street, Suite 1200
Toronto, ON M5C 2W7

expect that preparers should not need an overly long runway. Currently there are 248 Canadian companies listed on the IFRS Foundation website that are reporting with the SASB standards . This is proof that a significant number of companies already have the measures in place to align with CSDS 1 today.

In the case of companies that, due to their size or maturity, do not already provide material sustainability-related disclosure, we believe the proportionality provisions contained in CSDS 1 and CSDS 2 provide the necessary relief to avoid overburdening these preparers. These measures, in our opinion, make any consideration of even greater transition relief, or exemption from reporting altogether, moot. To be clear, investors understand that not all companies will be able to fully implement CSDS 1 and 2 at the onset, nor do we expect them to. We do, however, expect issuers to at least begin the process of considering material sustainability-related risks. The act of disclosing against these standards should be one that strengthens the issuer's position in the market and provides assurance to providers of capital that material risks are being addressed. It is not meant to place unreasonable burdens on companies.

The CSDS 1 application guidance provides clear guidance on how an entity should consider proportionality. For example:

- An entity shall use all reasonable and supportable information that is available to the entity at reporting date without undue cost or effort (CSDS 1, para 6(b));
- An entity need not undertake an exhaustive search for information to identify sustainability-related risks and opportunities that could reasonably be expected to affect the entity's prospects. The assessment of what constitutes undue cost or effort depends on the entity's specific circumstances and requires a balanced consideration of the costs and efforts for the entity and the benefits of the resulting information for primary users. That assessment can change over time as circumstances change (CSDS 1, para 10 (b));
- An entity shall use an approach that is commensurate with the skills, capabilities and resources that are available to the entity for preparing those disclosures (CSDS 1 para 37 (b));
- In addition, an entity need not provide quantitative information about the anticipated financial effects of a sustainability-related risk or opportunity if the entity does not have the skills, capabilities or resources to provide that quantitative information" (CSDS 1 para 39).

If the above guidance is applied appropriately, the risk of overburdening entities should be remote.

Yet we are also mindful that some preparers will be new to this kind of reporting and will need time to enhance their sustainability-related disclosures. In light of this, we would suggest that if the CSSB is to move forward with the suggested transition period (and if the CSA is to consider any similar relief period), preparers should still be required to provide interim disclosure during the transition period. This interim disclosure should cover the preparer's efforts to set itself up for success regarding eventual compliance with the requirements of CSDS 1. If a company does not already have the capacity to meet the expectations of CSDS 1, it stands to reason that it will need to build this capacity during the transition period in order to be able to report in line with the standard following the two years after adoption. We believe investors would benefit from knowing who is responsible for developing this capacity and how the entity plans to identify material risks. In other words, the entity should provide basic disclosure on governance (i.e. who is

151Yonge Street, Suite 1200
Toronto, ON M5C 2W7

responsible for ensuring future compliance) and risk management (i.e. how do they plan on assessing material risks and when do they envision providing the data). This would not create a burden on reporting entities but would ensure that entities are genuinely preparing themselves for future compliance.

Timing of reporting

Aligning the timing of sustainability-related financial disclosures and the related financial statements improves connectivity and ensures decision-useful information for users of general-purpose financial reports. Although Canadian respondents to the ISSB's IFRS S1 Exposure Draft expressed broad support for an integrated reporting approach, they noted challenges in aligning timing of reporting sustainability disclosures with the related financial statements.

Is any further relief or accommodation needed to align the timing of reporting?

Yes.

We are aware that entities that have been reporting on a staggered basis (e.g. reporting sustainability-related information later in the year) will face real challenges in aligning their disclosure timelines. We acknowledge the degree of work required to align disclosures and believe the timing of alignment merits a fair approach.

If the CSSB and/or the CSA receives significant feedback from issuers that alignment will not be feasible in the timeframe suggested by IFRS S1, we would suggest a phased approach to alignment that still sets an ambition that goes beyond the current status quo. Namely, for a transition relief period of two years, entities would be able to report sustainability-related disclosures up to 270 days after financial year-end. After the two-year period, issuers would be expected to align the timing of the two disclosures. This timing will likely coincide with the regulator's post-implementation review process, whereby the regulator will be able to learn from the experience of entities that have successfully transitioned to an aligned reporting schedule.

We feel a two-year transition period is both fair and adequate. As well, for first time reporters who have not built out their reporting infrastructure there is no legacy system to overhaul. On the contrary, we believe that from a cost-perspective it would make the most sense for new reporters to build an aligned system from the beginning. The alternative is to spend resources developing a staggered system only to overhaul that same system to bring the timing of the disclosures into alignment. Having an extended transition period longer than the two years might unintentionally incentivize the creation or extension of a staggered reporting infrastructure that will be more costly to bring back in alignment.

We believe that international trends point to alignment as the future global baseline. Absent a clear requirement to align, the current situation will continue to exist and will increase the risk of Canada falling behind international consensus. As such, our preference is for the CSSB to chart a leadership position and maintain its current alignment with IFRS S1 when it comes to the timing of sustainability-related disclosures.

151Yonge Street, Suite 1200
Toronto, ON M5C 2W7

How critical is it for users that entities provide their sustainability-related financial disclosures at the same time as its related financial statement?

Somewhat critical.
Aligning the release of sustainability-related financial disclosures with the related financial statement disclosures should be a priority. We believe that alignment of these two disclosures is currently achievable, though still just a best practice, and will enhance the decision-usefulness of information for investors. The current gap between these two disclosures undermines the ability of investors to develop and maintain an understanding of the integration of sustainability-related issues into the business strategy. Further, the simple optics of sustainability-related disclosures coming sometimes much later in the year raises legitimate questions about the importance of those issues to the company, and the degree of oversight rigour from management and the board.

That said, we opted for 'somewhat critical' as we also realize that the most important objective for us is to have disclosures that align with CSDS 1 and CSDS 2. If sustainability-related disclosures are not aligned with the timing of financial statements it will not be ideal, but it will still be an improvement. However, we do believe that over time, Canadian reporting entities, and their investors, will be disadvantaged in the global marketplace if we do not achieve alignment.

Other issues (referencing the alignment of CSDS 1 with IFRS S1)

We strongly support the CSSB's recommendation to align CSDS 1 with IFRS S1 without amendment. Except for potential future modifications that might come from the results of incorporating Indigenous perspectives, we strongly encourage alignment with international standards to meet one of the fundamental objectives of the ISSB – namely, to ensure standardized, consistent, and comparable disclosures. As such, keeping amendments to an absolute minimum should be an imperative for the CSSB. As well, we strongly encourage the CSA to keep any modifications to an absolute minimum. A key consideration for regulators must be the alignment with international norms in the interest of maintaining access to international capital. A weakened Canadian standard will not benefit Canadian issuers or their investors in this regard.

Climate resilience
The CSSB supports the global baseline requirements on climate resilience. However, it acknowledges that scenario-analysis methodologies are new for Canadian reporting entities, who have concerns about the level of resources, skills and capacity required to prepare these disclosures. Although IFRS S2 does not include transition relief, the Board seeks views on whether transition relief and/or guidance would help preparers and users of proposed CSDS 2-related disclosure in their assessment of climate resilience.

Is transition relief required for climate resilience disclosure?

151Yonge Street, Suite 1200
Toronto, ON M5C 2W7

Yes
The answer here would be better categorized as yes, but with a caveat. We have been engaging companies on the topic of performing scenario analysis for close to ten years and have some insights from this experience that inform our position. Companies have often been reluctant to disclose the results of scenario analysis but have uniformly found the exercise of performing scenario analysis to be beneficial. In our experience, this reticence to disclose is related to disclosing information that they believe has great uncertainties in it and worry that users will interpret the results as fact – when it is in fact just a scenario. That reluctance is understandable, but can be addressed through robust disclosure on the limitations of the data. We would also suggest that regulators consider the use of safe harbour provisions to bring further comfort to entities, particularly as it pertains to quantitative information. If the CSA were to consider the use of safe harbour provisions, care should be taken to ensure that there is a scheduled review of this provision to ensure that it is still needed as this practice matures.

We believe the benefit the company derives from the exercise itself is more important than the disclosed quantitative results of scenario analysis. As such, we believe it is important that CSDS 2 encourages the rapid adoption of climate scenario analysis to reflect the urgency with which we need companies to understand their risks and develop resilient strategies. We would likewise urge the CSA to similarly encourage companies to utilize this important tool.

As the main reluctance is on disclosing the results of the scenario analysis, and the main value is in performing the scenario analysis, CSDS 2 should aim to encourage the rapid adoption of scenario analysis while treating the disclosure of results as a secondary imperative. Thus, if a company were to choose to have a transition period to meet the disclosure expectations of CSDS 2 they should be required to verify in their first year of reporting that they have indeed undertaken scenario analysis (and will meet the disclosure requirements by the end of the transition period). This would require disclosure on basic information regarding the type of scenario(s) used, whether they were Paris-aligned, who was responsible for performing the scenario analysis, and how senior management and the board have been engaged with the results. After the relief period, the company would be required to provide a discussion of the results and the potential implications for corporate strategy. This disclosure could be both qualitative and quantitative but must meet the expectation of enabling users to understand the resilience of the corporate strategy.

We feel this compromise might alleviate the concerns of companies who are new to scenario analysis and provide them time to get comfortable with the results and determine how to speak about them (as well as how to interpret them), while also giving investors assurance that the company is indeed performing this critical piece of due diligence.

In terms of the length of the transition period, two years would seem to be adequate.

Proposed CSDS 2 references the Task Force on Climate-related Financial Disclosures' "Technical Supplement: The Use of Scenario Analysis in Disclosure of Climate-related Risks and Opportunities" (2017) and its "Guidance on Scenario Analysis for Non-Financial Companies" (2020) for related application guidance.

151Yonge Street, Suite 1200
Toronto, ON M5C 2W7

What additional guidance would an entity applying the standard require?

The TCFD guidance has proven itself adequate for companies who have been reporting against the TCFD for several years now. As such, it is likely still adequate for CSDS 2. It would not be prudent for the CSSB to commission or create its own guidance. However, it would be useful for the CSSB to consider compiling best practice examples of ongoing disclosure to highlight for companies how to best meet the standard. This would be a significant value-add for industry and investors alike.

We would note that in the Canadian context, the work of the Office of the Superintendent of Financial Institutions (OSFI) to create its own scenarios will be a valuable resource to highlight for issuers. Perhaps OSFI can also be encouraged to provide its own guidance for users of its scenarios that might prove valuable.

Scope 3 GHG emissions

The Exposure Draft provides additional transition relief by proposing that in the first two annual reporting periods in which an entity applies the proposed standard, the entity is not required to disclose its Scope 3 GHG emissions.

Is the proposed relief of up to two years after the entity applies proposed CSDS 2 adequate for an entity to develop skills, processes, and the required capacity to report its Scope 3 GHG emissions disclosures at the same time as the general-purpose financial reports?

Yes.

We acknowledge the current uncertainty surrounding the calculation of Scope 3 emissions and agree with the proposed transition relief relating to the disclosure of Scope 3 emissions. The current quality of Scope 3 measurement and disclosure is a recognized challenge for investors and companies alike, undermining the decision-usefulness of current Scope 3 disclosures. As such, we believe there is merit in taking the time to get the disclosures right and would not want to see Scope 3 disclosure become a focal point for entities when there is other more decision-useful information that should be prioritized in the near term.

However, we support the inclusion of Scope 3 reporting requirements in CSDS 2 to maintain alignment with IFRS S2. For many industries and sectors the most material GHG-related emissions can be found in their upstream and downstream footprint. Since the purpose of climate-related disclosure is to identify the most material risks, to then mitigate those risks, it makes sense that Scope 3 will need to be considered. We feel that Scope 3 is an important lens through which an entity can assess the resiliency of its business model. As investors, we want to know that the company's strategy is responsive to the climate-related risks specific to the value chain of its business model. We would not support the exclusion of Scope 3 reporting requirements for this reason. That said, we are supportive of finding ways to make the process of quantifying Scope 3 emissions easier while also bringing comfort to entities that imperfect Scope 3 disclosure will not be a liability.

151Yonge Street, Suite 1200
Toronto, ON M5C 2W7

Beyond the proposed transition relief period, we believe that CSDS 2 could provide an allowance to focus Scope 3 reporting on only the most material categories. It is often the case that the bulk of Scope 3 emissions are concentrated in just a few of the 15 categories that the GHG Protocol lists. It is not the best use of reporting resources to pursue data in all 15 categories when we think of what is decision-useful for investors. For example, a company in the oil & gas industry would have the bulk of its emissions in category 11 (use of sold products), far outweighing other categories and rendering the calculation of employee travel emissions (for example) rather moot. CSDS 2 could provide guidance to companies on how to determine material Scope 3 categories.

Regarding the technical nature of identifying upstream and downstream emissions, CSDS 2 could be specific in providing guidance on the use of estimates and industry averages to reduce the burden of reporting while Scope 3 reporting matures. We are very early in the game of measuring and reporting on Scope 3 emissions so it should not come as a surprise that methodologies are evolving. We will see better and more useful reporting as we collectively learn. Providing transition relief can help in allowing the space for methodologies to improve, but having the shared expectation of eventually reporting will provide the impetus required to ensure they improve.

We expect the CSA to similarly include requirements for Scope 3 emissions reporting, in line with CSSB guidance. We believe that the CSA should consider the use of safe harbour provisions in relation to Scope 3 reporting. The uncertainty associated with current Scope 3 methodologies makes an ideal case for the use of safe harbour provisions to provide comfort to entities as they evolve their reporting. We believe the use of safe harbour provisions should not be open ended but should have a regular review period built into the regulation to ensure that it is still needed.

We recognize that the decision by the SEC to remove the requirement for Scope 3 reporting has created concerns regarding consistency across the North American market. However, we believe it would be a major mistake for regulators (or the CSSB) to follow this decision. Aside from the risk of deviating from the international path of travel on Scope 3 reporting, such a decision would also be contrary to state-level developments in the US, such as California's SB 253, which requires public and private companies to disclose on their Scope 3 emissions. As well, Canadian entities with operations in Europe will be facing similar expectations under the EU's Corporate Sustainability Reporting Standard (CSRD). That said, we support a reasonable approach to Scope 3 emissions disclosure that reflects the uncertainty embedded in the calculation of Scope 3 emissions but encourages entities and their investors to grow their understanding of upstream and downstream climate-related risks.

Other issues (concerning alignment of CSDS 2 with IFRS 2)

We strongly support the CSSB's recommendation to align CSDS 2 with IFRS S2 without amendment. Except for potential future modifications that might come from the results of incorporating Indigenous perspectives, we strongly encourage alignment with international standards to meet one of the

151Yonge Street, Suite 1200
Toronto, ON M5C 2W7

fundamental objectives of the ISSB – namely, to ensure standardized, consistent, and comparable disclosures. As such, keeping amendments to an absolute minimum should be an imperative for the CSSB.

Proposed criteria for modification framework

The CSSB's proposed Criteria for Modification Framework presents the basis on which the CSSB could introduce changes to the IFRS Sustainability Disclosure Standards as issued by the ISSB. These criteria ensure that Canadian standards align with international standards while addressing Canadian public interest.

Do you agree with the CSSB's proposed criteria to assess modifications, namely additions, deletions, and amendments to the ISSB's global baseline standards?

Yes.
We are conceptually aligned with the CSSB's proposed criteria to assess modifications to the ISSB's global baseline standard. However, we believe the framework could benefit from some additional context on the definitions underpinning some of the criteria. For example, the type of "requirements or guidance, where the ISSB recognizes that different provisions of practices may apply in different jurisdictions and Canada is such a jurisdiction" is unclear. Could the CSSB provide some examples on how provisions of practices could differ? We also note the provisions for amendments that would be required to serve the "Canadian public interest" that are contemplated by the CSSB. What kinds of issues would arise to such levels? Perhaps the CSSB could consider providing additional context on the guidelines it would apply to make a determination around the 'Canadian public interest', in such instances.

The criteria would benefit from affirming that the primary users of the disclosures will be investors, and that the "public interest" considerations will be taken within that context. The objective of the disclosures is to provide investors with decision-useful information, thus modifications in the standards must be weighed against this objective.

We note that the ISSB standards do not specifically reference the rights of Indigenous Peoples, which must be recognized in our Canadian context. We are very supportive of the CSSB's commitment to respect "the rights, perspectives and priorities of First Nation, Métis and Inuit Peoples in its consultation process" and its recognition of the fact that "advancing reconciliation with First Nation, Métis and Inuit Peoples in Canada is fundamental to the work of Canadian standard setting for sustainability-related disclosure". We look forward to learning more about the outcomes of this consultation process, and of the CSSB's efforts. In light of our questions above, we would also seek clarity on whether the CSSB's efforts to consult with First Nation, Métis and Inuit Peoples could lead to the need to facilitate modifications that would be considered to serve the "Canadian public interest".

While we strongly support the CSSB's commitment to engage meaningfully with Indigenous peoples, we note that the planned timeline for the release of the finalized standard means this engagement will have to occur after the fact. This is not ideal, but we also acknowledge the urgency of the moment, particularly as it

151Yonge Street, Suite 1200
Toronto, ON M5C 2W7

pertains to climate-related disclosure. However, noting that the CSA will be looking towards implementation of CSSB recommendations, along with its own consultation process, we urge the CSA to begin this process immediately, and the CSSB should consider how it might help to expedite this. Under the United Nations Declaration on the Rights of Indigenous Peoples Act, Canada has committed to implementing UNDRIP and we note that Article 19 of UNDRIP states that governments should consult and cooperate with Indigenous peoples on legislative or administrative measures that may affect them. We believe this puts the onus on the CSA to engage meaningfully as it works on mandatory disclosure standards. The CSA and the CSSB should work together to ensure the meaningful participation of Indigenous voices in the development and implementation of CSDS 1 and CSDS 2.

Best regards,

Jamie Bonham
Head of Stewardship, NEI Investments

151Yonge Street, Suite 1200
Toronto, ON M5C 2W7