PMAC Submission – CSSB Consultation on Adoption of CSDS 1 and CSDS 2 in Canada – Survey Response

Part 1

[for identification purposes only]

Part 2: Based on CSSB Exposure Draft, Proposed CSDS 1, General Requirements for Disclosure of Sustainability-related Financial Information

13. Scope of proposed CSDS 1 (proposed paragraphs 1-4 of CSDS 1)

Apart from effective date and transition relief, CSDS 1 proposes to adopt IFRS S1 without amendment. The objective of proposed CSDS 1 is to require an entity to disclose information about its sustainability-related risks and opportunities. The proposed standard is based upon the fundamental principle that an entity's ability to generate cash flows over the short, medium, and long terms is inextricably linked to the entity's interactions with society, the economy, the natural environment, and other parties that it may impact.

Proposed CSDS 1 includes:

- definitions and information required to prepare a complete set of sustainability disclosures; and
- a standard for sustainability-related disclosures.

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.

To learn about the factors the CSSB considered in establishing its position, you can refer to question 1 of proposed CSDS 1.

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

Yes

No

14. Please provide your reasons for your response to the previous question.

Asset managers, including PMAC members, require reliable, consistent and comparable information on environmental, social and governance (ESG) risks in order to make informed investment decisions. Although there is an urgent need for this information within the investment industry, both issuers and investors continue to struggle with the accuracy of the disclosures and the system changes needed for asset managers to absorb the data. This includes ensuring the level of data is consistent and reliable. For this reason, we believe that a two-year transition period is appropriate.

While some issuers, especially smaller companies, may prefer a longer transition period, for example, due to their limited financial, human capital, and technology resources, we believe that the proportionality language in CSDS1 supports an evolution in approach over time. This may help to alleviate the strain on smaller companies' resources – the quality of their disclosure may evolve as they obtain precedent disclosures from larger companies and gain further insights; this will support disclosures that are more accurate and comparable, and therefore more useful from an asset manager perspective.

Some of our members also noted that in addition to the length of time given to comply, there is concern with the vagueness of the guidelines. As companies begin to comply and disclosures increase, it is hoped that the accuracy of information will improve. Therefore, disclosure of information should be encouraged, even if it includes estimates (currently financial statements also include estimates). Generally, investors prefer that the implementation happen as soon as possible to allow this evolution to begin.

15. If you do not agree that the two-year transition relief is adequate, what transition relief do you believe is required? Please provide your reasons.

N/A

16. Timing of reporting (proposed paragraphs 64-69 of CSDS 1)

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.

While the CSSB acknowledges the benefits that integration in reporting provides to users and the long-term benefits it offers to preparers, the Board also recognizes the challenges that preparers face. The Board deliberated on various amendments to address these challenges, including deferring the alignment in timing of reporting requirement for a period of time. However, the Board recognizes that this period may not provide enough time for preparers to fully resolve the issues. On the other hand, deleting the requirement could hinder progress in the sustainability disclosures landscape.

For fuller context on this topic, you can refer to question 2 of proposed CSDS 1.

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

Yes

No

17. If you responded 'Yes' to the previous question, please specify the nature of the relief or accommodation and provide the rationale behind it.

We acknowledge the benefit that integrated reporting provides; however, we note that this could present challenges, particularly for smaller companies depending on their resources, data availability, cost, etc. Although we support aligning the timing of the reporting, a phase-in period may help to overcome these challenges.

For example, a one- to two-year window could be provided for sustainability-related financial disclosures to be mandated to catch up with financial statement disclosures.

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

- Critical
- **Somewhat critical**
- Not critical
- Other:

19. Please provide your reasons for your response to the previous question.

We support aligning the reporting as some of our members have indicated that any relevant sustainability-related information should be evaluated together with the financial statements. We agree that sustainability-related information is equally important to financial information. Members also indicated that staggering the reporting may complicate downstream analysis and reporting.

For data consistency, data comparability and to enable adequate analysis by portfolio managers, material sustainability-related financial risks and opportunities should eventually be mandated to be disclosed in tandem with the financial statements they are linked to. While an initial one- to two-year phase-in period may be appropriate, a continuous gap between the two types of disclosures defeats the purpose of recognizing that sustainability-related financial matters are inextricably linked to financials, business strategy, capital expenditures, oversight and risk.

20. Other Issues

Do you agree that the requirements in the ‘Scope’ section are appropriate for application in Canada?

Yes

No

21. Please provide your reasons for your response to the previous question.

We agree that the provisions should align to the greatest extent possible with IFRS S1 and do not believe there is any reason to deviate from that standard in this section.

22. Do you agree that the requirements in the ‘Conceptual Foundations’ section are appropriate for application in Canada?

Yes

No

23. Please provide your reasons for your response to the previous question.

We agree that the provisions should align to the greatest extent possible with IFRS S1 and do not believe there is any reason to deviate from that standard in this section.

24. Do you agree that the requirements in the ‘Core Content’ section are appropriate for application in Canada?

Yes

No

25. Please provide your reasons for your response to the previous question.

As noted above, some of our members questioned the usefulness of the standards at this stage of implementation. They indicated that it would be helpful for both issuers and investors to receive further guidance and support given the complexity (and newness) of forecasting various climate scenarios and related impacts.

We will also recommend that “safe harbour” provisions be implemented regarding liability for forward-looking statements, which would include scenario analysis, as the standards are adopted into regulation.

26. Do you agree that the requirements in the ‘General Requirements’ section are appropriate for application in Canada?

Yes

No

27. Please provide your reasons for your response to the previous question.

We agree that the provisions should align to the greatest extent possible with IFRS S1 and do not believe there is any reason to deviate from that standard in this section.

28. Do you agree that the requirements in the ‘Judgements, Uncertainties, and Errors’ section are appropriate for application in Canada?

Yes

No

29. Please explain the rationale for your response to the previous question.

We agree that the provisions should align to the greatest extent possible with IFRS S1 and do not believe there is any reason to deviate from that standard in this section.

As noted above, at this stage, the disclosures lend themselves better to qualitative rather than quantitative discussions. Over time, it is expected that the information will become more useful and relevant to investors.

30. Do you agree that the requirements in ‘Appendices A-E’ are appropriate for application in Canada?

Yes

No

31. Please explain the rationale for your response to the previous question.

Although there is no fundamental disagreement with the content, some members noted that taken together, the scope of the disclosures and discussion lends itself better to an initial report more akin to an environmental impact assessment of a project or enterprise, with subsequent updates on actual impacts and progress. As we noted above, we expect that the quality of the disclosures will improve over time.

Part 3: Based on CSSB Exposure Draft, Proposed CSDS 2, Climate-related Disclosures

32. Would you like to respond to one or more questions from the Exposure Draft, Proposed CSDS 2, Climate-related Disclosures?

Yes

No

33. Climate resilience (proposed paragraph 22 of CSDS 2)

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.

For fuller context on this topic, you can refer to question 1 of proposed CSDS 2.

Is transition relief required for climate resilience disclosure?

Yes

No

34. If you responded 'Yes' to the previous question, please specify for how long and explain why.

In our view, additional transition relief is not necessary and there is no compelling reason to deviate from the ISSB standards.

We believe that the proportionality provisions, the possibility of safe harbour provisions and investor expectations that certain climate disclosures can be estimates (Scope 3) will adequately address issuer concerns.

As noted above, from an investor perspective, this data is urgently needed. Prolonging the transition period would negatively impact Canadian competitiveness globally and would affect Canadian investors' ability to access comparable and consistent data in a timely way across domestic and international markets.

35. Is further guidance necessary?

Yes

No

36. If you responded 'Yes' to the previous question, please specify the specific elements that require guidance and explain why.

As noted above, some PMAC members noted a need for further guidance and acceptable standards to improve the quality and usefulness of the disclosures.

37. 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.

What additional guidance would an entity applying the standard require? Please be specific.

Some of our members noted that without firm standards, there is potential for the disclosure to be purely qualitative, which would reduce the potential value to the investment analyst.

Other members noted that requiring climate disclosures to be conducted to the audit standard of the financial statement would be a significant barrier to disclosure, and that most investors would be satisfied with a limited assurance of climate-related disclosures, which together with the proportionality provisions and safe harbour protections, will facilitate adoption while providing investors with the information they need.

38. Scope 3 GHG emissions (proposed paragraph C4 of CSDS 2)

Scope 3 GHG emissions information is critical for investors to understand an entity's exposure to climate-related risks and opportunities within its value chain. Preparers have raised concerns about the measurement uncertainty of Scope 3 GHG emissions, along with challenges related to processes and capacity to deliver disclosures concurrently with general-purpose financial reports. While acknowledging these concerns, the CSSB endeavours to balance this feedback with the realities of the urgent need to address climate-related risks. Given these considerations, this 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.

For fuller context on this topic, you can refer to question 2 of proposed CSDS 2.

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

No

39. Please explain the rationale for your response to the previous question.

Scope 3 disclosure is necessary for investors to support a broader risk assessment. We agree that the relief is adequate and that it will lead as closely as possible to a calculable standard with relatable results, which is necessary, decision-useful information.

Regardless of the transition period, and perhaps as an alternative to providing the additional transition relief, in order to make progress towards scope 3 disclosure, we encourage the CSSB to acknowledge that initial scope 3 disclosures will lack accuracy. In this manner CSDS 1 and CSDS 2 disclosures could be harmonized to one year of transition relief, while emphasizing the shared understanding and acceptance of potential data inaccuracies in Scope 3 reporting.

We believe that references to reasonability, proportionality, and materiality within the standards accommodates companies of various stages of readiness for disclosure. Together, these elements may enable issuers to pursue Scope 3 disclosure within a 1-year transition relief period instead of the suggested 2-year period.

40. If you do not agree that two-year transition relief is sufficient, what relief period do you believe is required? Please provide your rationale for the timing you have provided.

41. Other Issues

Do you agree that the requirements in the ‘Objective’ section are appropriate for application in Canada?

Yes

No

42. Please explain the rationale for your response to the previous question.

Although measuring, calculating and reporting on Scope 3 may present a challenge and cost for issuers, as noted above, we believe the references to reasonability, proportionality, and materiality within the standards offer a measure of relief. Companies may consider a materiality threshold in determining whether a company would be required to report, including which of the 15 categories. We believe this could be part of the qualitative information to include in the general management discussion.

43. Do you agree that the requirements in the ‘Scope’ section are appropriate for application in Canada?

Yes

No

44. Please explain the rationale for your response to the previous question.

Although we agree with the requirements, our members noted that narrowing the scope to standards for calculating net environmental emissions/remediations of the enterprise may make the information more useful.

45. Do you agree that the requirements in the ‘Core Content’ section are appropriate for application in Canada?

Yes

No

46. Please explain the rationale for your response to the previous question.

Our members noted that although they agree with the core content, it is very broad and may be most useful in the context of a project or enterprise’s initial assessment, as mentioned above.

47. Do you agree that the requirements in ‘Appendices A-C’ are appropriate for application in Canada?

Yes

No

48. Please explain the rationale for your response to the previous question.

As noted above, the information may be most helpful in the context of an initial assessment.

Part 4: Based on CSSB Consultation Paper, Proposed Criteria for Modification Framework

49. Would you like to respond to one or more questions from the CSSB Consultation Paper, Proposed Criteria for Modification Framework?

Yes

No

50. 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.

For fuller context on this topic, you can refer to question 1 and 2 of proposed Criteria for Modification Framework.

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

No

51. Please provide reasons for your response to the previous question.

We agree that requirements should be harmonized and that the Canadian disclosure standards should not deviate significantly from the IFRS standards to the extent possible.

However, we also agree that the Canadian context should include the Indigenous perspective, and that modifications may be appropriate to take the Indigenous perspective into account. Therefore the CSSB should consider including a reference to Section 35 of the Constitution and the United Nations Declaration on the Rights of Indigenous Peoples Act, 2021 in paragraph 1(a).

We believe that the wording of paragraph 1(b) is vague and may invite deviations from the global standards that are not strictly necessary. These deviations will add complexity and uncertainty that could impact the global competitiveness of Canadian markets and should therefore be minimized. We do not believe that these additional modification criteria are sufficiently clear or justified, and therefore the CSSB should consider removing them.

52. Are there other criteria that the CSSB should consider including in its proposed Criteria for Modification Framework?

Yes

No

53. If you responded 'Yes' to the previous question, please explain what criteria and provide the rationale behind it.

As noted above, some of our members would prefer more narrow, quantifiable standards. Also, the Indigenous perspective on the qualitative risks and assessments may suggest further or different criteria for inclusion.