CFA Societies Canada

# Canadian Advocacy Council

May 28, 2024

VIA ONLINE PORTAL AND EMAIL

Lisa French
Vice-President, Sustainability Standards
Sustainability Standards Board
277 Wellington Street West Toronto, Ontario M5V 3H2

**Re: Consultation Paper on CSSB Standards (the "Consultation")**

The Canadian Advocacy Council of CFA Societies Canada[1] (the "CAC") appreciates the opportunity to provide the following general comments on the Consultation and respond to the specific questions posed below. We are supportive of the CSSB's intent to continue to consult on climate and sustainability disclosures in Canada, with a particular focus on how the disclosures meet the needs of investors.

***Criteria for additions to, deletions from, or other amendments of IFRS Sustainability Disclosure Standards***

*The CSSB recognizes the benefits of global standardization of sustainability disclosure standards to the Canadian public interest and therefore, supports the incorporation of IFRS Sustainability Disclosure Standards in [Canadian standards] to the fullest extent possible. The Board also recognizes that there may be circumstances where amendments are required in the Canadian public interest. The following sets out criteria for the circumstances in which the Board would make amendments to the IFRS Sustainability Disclosure Standards in setting Canadian standards based on them:*

1. *Subject to paragraph 2 below, the CSSB will generally limit additions to, deletions from, or other amendments to an IFRS Sustainability Disclosure Standard to the following:*

[1] The CAC is an advocacy council for CFA Societies Canada, representing the 12 CFA Institute Member Societies across Canada and over 21,000 Canadian CFA charterholders. The council includes investment professionals across Canada who review regulatory, legislative, and standard setting developments affecting investors, investment professionals, and the capital markets in Canada. Visit www.cfacanada.org to access the advocacy work of the CAC.

As the global association of investment professionals, CFA Institute sets the standard for professional excellence and credentials. The organization is a champion of ethical behavior in investment markets and serves as the leading source of learning and research for the investment industry. CFA Institute believes in fostering an environment where investors' interests come first, markets function at their best, and economies grow. Spanning nearly 200,000 charterholders worldwide across 160 markets, CFA Institute has 10 offices and 160 local societies. Find us at www.cfainstitute.org or follow us on LinkedIn and X at @CFAInstitute.

*(a) Requirements or guidance, the application of which are not permitted by, or require addition, deletion or amendment to be consistent with, applicable Canadian law or regulation.*

*(b) Requirements or guidance, where the ISSB recognizes that different provisions or practices may apply in different jurisdictions and Canada is such a jurisdiction.*

*2. The CSSB may make additions, deletions and/or amendments to IFRS Sustainability Disclosure Standards with respect to requirements or guidance beyond those described in paragraph 1 above (including effective dates and transition periods) where it believes such additions, deletions or amendments are required to serve the Canadian public interest and maintain the quality of sustainability disclosure in Canada.*

**CAC response**:

While we are in agreement with the above criteria, in particular since it provides the opportunity to address Canadaspecific issues such as the connectivity between our natural resources/extractive sectors and Indigenous rights and title, we feel that there are certain limiting thresholds / guardrails that should be put in place should the CSSB decide to diverge from the IFRS Sustainability Disclosure Standards.

These guardrails are important for Canadian issuers to remain competitive on an international basis and to ensure cross-jurisdictional comparability and interoperability between the CSSB standards and IFRS Sustainability Disclosure Standards. We believe there are serious risks to orphaning Canadian issuers from international investors and sources of capital should Canadian disclosure requirements not meet the needs of comparability with other jurisdictions' disclosures.

These guardrails should take the form of guiding principles and objective tests that should form a documented process and litmus test for any potential deviation from the IFRS Sustainability Disclosure Standards. This should include specific qualifying criteria to justify any departure from the IFRS Sustainability Disclosure Standards in Canadian standards. The criteria and justification for any changes should be clear and unambiguous, rather than simply relying on the fact that Canada is a different jurisdiction.

**In addition, we generally believe that any changes to the IFRS Sustainability Disclosure Standards should be additive and not subtractive to the established international baseline, i.e. the IFRS Sustainability Disclosure Standards should not be diluted. CSSB should in our view look to add additional standards and requirements where required, but should not delete requirements from the IFRS Sustainability Disclosure Standards in creating Canadian standards.**

Ensuring there is a solid governance process and procedures as part of the CSSB's due process for any additional requirements or deviations from the IFRS Sustainability Disclosure Standards, including how the criteria are determined, applied and tested, is also key to maintaining the integrity of the CSDS requirements and obtaining local and international buy in.

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***Canadian Sustainability Disclosure Standard (CSDS) 1, General Requirements for Disclosure of Sustainability-related Financial Information***

| Paragraph in IFRS S1 | Paragraph in proposed CSDS 1 | Rationale |
|---|---|---|
| **Effective date** | | |
| E1 An entity shall apply this Standard for annual reporting periods beginning on or after 1 January 2024. Earlier application is permitted. If an entity applies this Standard earlier, it shall disclose that fact and apply IFRS S2 *Climate-related Disclosures* at the same time. | E1 An entity shall apply this standard for annual reporting periods beginning on or after January 1, ~~2024~~2025. Earlier application is permitted. If an entity applies this standard earlier, it shall disclose that fact and apply CSDS 2 *Climate-related Disclosures* at the same time. | The effective date has been extended by one year due to the expected timing of CSDS 1's issuance. However, Canada's regulators and legislators will determine whether CSDSs should be mandated, and if so, who will need to apply the standards and over what time frame. |

**CAC response**:

E1: The CAC acknowledges that since the standards have not been released yet, extending the effective date by one year from that required by the IFRS Sustainability Disclosure Standards is practical and acceptable, though cautions against further delays.

| Transition | | |
|---|---|---|
| E5 In the first annual reporting period in which an entity applies this Standard, the entity is permitted to disclose information on only climate-related risks and opportunities (in accordance with IFRS S2) and consequently apply the requirements in this Standard only insofar as they relate to the disclosure of information on climate-related risks and opportunities. If an entity uses this transition relief, it shall disclose that fact. | E5 In the first <u>two</u> annual reporting period<u>s</u> in which an entity applies this draft standard, the entity is permitted to disclose information on only climate-related risks and opportunities (in accordance with CSDS 2) and consequently apply the requirements in this standard only insofar as they relate to the disclosure of information on climate-related risks and opportunities. If an entity uses this transition relief, it shall disclose that fact. | The transition relief for disclosures beyond climate-related risks and opportunities has been extended by one year to allow entities in Canada more time to prepare for adoption.<br><br>**Illustration:** Assuming a calendar year end, if an entity applies the standard for the first time in the reporting period beginning on January 1, 2025, the entity will be required to disclose information on all sustainability-related risks and opportunities from the reporting period beginning on January 1, 2027. |

**CAC response**:

E5: The CAC recognizes the need for entities to adequately prepare. However, since the standards will be voluntary in Canada at this time, the CAC does not see a need for an additional year of transition relief for disclosures beyond climate. Delay could have the perverse effect of discouraging entities that are already in a strong position to commence disclosure, and in any event, the timing for any mandatory adherence to the standards will be determined by regulators upon their adoption, and likely come at later implementation dates than considered here. Furthermore, considering that the CSSB standards will lag behind the IFRS Sustainability Disclosure Standards by one year, granting another year of relief will not benefit Canadian issuers from an international competitiveness perspective, particularly for those who will be prepared to disclose.

| | | |
|---|---|---|
| E6 If an entity uses the transition relief in paragraph E5:<br><br>(a) in the first annual reporting period in which the entity applies this Standard, it is not required to disclose comparative information about its climate-related risks and opportunities (see paragraph E3); and<br><br>(b) in the second annual reporting period in which the entity applies this Standard, it is not required to disclose comparative information about its sustainability-related risks and opportunities, other than its climate-related risks and opportunities. | E6 If an entity uses the transition relief in paragraph E5:<br><br>(b) in the ~~second~~ third annual reporting period in which the entity applies this draft standard, it is not required to disclose comparative information about its sustainability-related risks and opportunities, other than its climate-related risks and opportunities. | Paragraph E6 has been revised to align with the modification made to paragraph E5.<br><br>**Illustration:** Assuming a calendar year end, if an entity applies the standard for the first time in the reporting period beginning on January 1, 2025, and applies the relief in E5, to delay reporting about its sustainability-related risks and opportunities (other than disclosure of information on only climate-related risks and opportunities), it will be required to disclose comparative information on all sustainability-related risks and opportunities from the reporting period beginning on January 1, 2028. |

**CAC response**:

E6: No comments.

***Canadian Sustainability Disclosure Standard (CSDS) 2, Climate-related Disclosures***

| Paragraph in IFRS S2 | Paragraph in proposed CSDS 2 | Rationale |
|---|---|---|
| **Effective date** | | |
| C1 An entity shall apply this Standard for annual reporting periods beginning on or after 1 January 2024. Earlier application is permitted. If an entity applies this Standard earlier, it shall disclose that fact and apply IFRS S1 *General Requirements for Disclosure of Sustainability-related Financial Information* at the same time. | C1 An entity shall apply this standard for annual reporting periods beginning on or after January 1, ~~2024~~ 2025. Earlier application is permitted. If an entity applies this standard earlier, it shall disclose that fact and apply CSDS 1, *General Requirements for Disclosure of Sustainability-related Financial Information*, at the same time. | The effective date has been extended by one year due to the expected timing of CSDS 2's issuance. However, Canada's regulators and legislators will determine whether CSDSs should be mandated, and if so, who will need to apply the standards and over what time frame. |

**CAC response**:

C1: While the CAC acknowledges the rationale behind extending the effective date by one year due to the unreleased standards and agree with this compromise, we would like to emphasize that climate risk and other material sustainability or ESG risks are fundamental for sound risk management by investors, and the voluntary nature of these standards prior to legislative or regulatory mandate should not preclude or in any way dissuade issuers who are ready to make additional disclosures consistent with this standard from making those disclosures at the earliest opportunity. Issuers' dissemination of this information to the market at the earliest opportunity is crucial for Canada and its issuers to remain competitive with peers and keep pace with the rest of the global market. While we understand the rationale for the delay, the current lack of legislative or regulatory mandating of these standards does not necessarily demand codified delays, and would encourage the CSSB to craft standards and timelines that encourage issuers that are ready to report at the earliest opportunity, as we believe this would create important signaling for other issuers that are still preparing their disclosures and supporting processes.

| Transition | | |
|---|---|---|
| C4 In the first annual reporting period in which an entity applies this Standard, the entity is permitted to use one or both of these reliefs:<br>(a) if, in the annual reporting period immediately preceding the date of initial application of this Standard, the entity used a method for measuring its greenhouse gas emissions other than the Greenhouse Gas Protocol: A Corporate Accounting and Reporting Standard (2004), the entity is permitted to continue using that other method; and | C4 ~~In the first annual reporting period in which an entity applies this Standard, the~~ An entity is permitted to use one or both of these reliefs:<br>(a) if, in the annual reporting period immediately preceding the date of initial application of this standard, an ~~the~~ entity used a method for measuring its greenhouse gas emissions other than the Greenhouse Gas Protocol: A Corporate Accounting and Reporting Standard (2004), the entity is permitted to continue using that other method in the first annual reporting period in which an entity applies this standard; and | (a) Language has been modified to align with modifications made to C4. |
| (b) an entity is not required to disclose its Scope 3 greenhouse gas emissions (see paragraph 29(a)) which includes, if the entity participates in asset management, commercial banking or insurance activities, the additional information about its financed emissions (see paragraph 29(a)(vi)(2) and paragraphs B58–B63). | (b) in the first two annual reporting periods in which an entity applies this standard, ~~an~~ the entity is not required to disclose its Scope 3 greenhouse gas emissions (see paragraph 29(a)) which includes, if the entity participates in asset management, commercial banking or insurance activities, the additional information about its financed emissions (see paragraph 29(a)(vi)(2) and paragraphs B58-B63). | (b) The transition relief has been extended for disclosure of Scope 3 greenhouse gas (GHG) emissions by one additional year to allow entities in Canada more time to prepare for adoption.<br>**Illustration**: Assuming a calendar year end, if an entity applies the standard for the first time in the reporting period beginning on January 1, 2025, it will be required to disclose its Scope 3 GHG emissions from the reporting period beginning on January 1, 2027. |

**CAC response**:

C4: The CAC recognizes the need for entities to adequately prepare for scope 3 emissions disclosures. However, since the standards are already delayed by one year as compared to IFRS Sustainability Disclosure Standards (see item C1), and since the standards are also voluntary at this time, the CAC does not see a need for an additional year of codified transition relief for scope 3 disclosures in the standards. For issuers that choose not to adopt scope 3 emissions disclosures at this voluntary stage for the standards, explanation as to their rationale should be encouraged or required as a secondary (but noted as an inferior) disclosure.

**Conclusion**

We thank you for the opportunity to provide these comments and would be happy to address any questions you may have. Please feel free to contact us at cac@cfacanada.org on this or any other issue in future.

(Signed) *The Canadian Advocacy Council of*
*CFA Societies Canada*

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