PRI Principles for Responsible Investment

BRIEFING NOTE

NATIONAL CORPORATE SUSTAINABILITY DISCLOSURES ROUNDTABLE

November 2024

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PRI Association
Registered office: 25 Camperdown Street
London, UK, E1 8DZ Company no. 7207947
T: +44 (0) 20 3714 3220 W: www.unpri.org E:info@unpri.org

EXECUTIVE SUMMARY

On October 7, 2024, the PRI facilitated a conversation under Chatham House rule between Canadian policy makers, regulators and standard setters, international and domestic investors and representatives of Indigenous perspectives to explore the adoption of standardised corporate sustainability disclosures. Below are key conclusions of the exchange:

1. **Extraterritorial regulation such as the EU's Corporate Sustainability Reporting Directive will inevitably drive global reporting expectations for issuers.**

2. **Canada's economy cannot afford to have its corporate reporting landscape stagnate as other countries continue to improve.** Canada's economic position is not unique. While the fear of losing market actors to other jurisdictions has created inertia, we must move faster. Work is underway by many Canadian regulatory authorities, and investors expect that Canada will work towards full adoption of national standards that reflect the ISSB global baseline.

3. **In the absence of mandatory issuer disclosures, investors incur significant costs** to research, access, evaluate and estimate missing or incomplete sustainability data on investment-relevant issues to get a more realistic picture of risks and opportunities. Investors are expected to make the use case to issuers and regulators on why this information is important to making investment decisions in the best interest of their clients and beneficiaries.

4. **Additional resources are required to establish meaningful engagement with Indigenous peoples** to inform the development and implementation of corporate sustainability disclosures in Canada.

Additional details on these 4 key conclusions are detailed below along with associated calls to action. The PRI will continue the dialogue with signatories and stakeholders in the coming weeks and months as we move towards final versions of the Canadian Sustainability Disclosure Standards (CSDS).

1. EXTRATERRITORIAL REGULATION SUCH AS THE EU'S CORPORATE SUSTAINABILITY REPORTING DIRECTIVE WILL INEVITABLY DRIVE GLOBAL REPORTING EXPECTATIONS FOR ISSUERS.

There is a looming reality that issuers are being caught up in other international reporting obligations, such as those covered by the Corporate Sustainability Reporting Directive (CSRD) in the European Union. Regulatory discord, both domestic and internationally, reduces market efficiency and adds complexity and cost for both issuers and participants. Adopting the global baseline of ISSB standards helps to ensure that reporting requirements are similar for companies across jurisdictions. While regulators ensure solutions for alignment, they must also consider the specific characteristics of their individual markets.

2. CANADA'S ECONOMY CANNOT AFFORD TO HAVE ITS CORPORATE REPORTING LANDSCAPE STAGNATE AS OTHER COUNTRIES CONTINUE TO IMPROVE.

Canada's economic position is not unique. While the fear of losing market actors to other jurisdictions has created inertia, we must move faster. Work is underway by many Canadian regulatory authorities, and investors expect that Canada will work towards full adoption of national standards that reflect the ISSB global baseline.

Cooperation and coherent action from the many regulatory and legislative actors in Canada is necessary to ensure an enabling environment for sustainable finance. In addition to disclosures, another key ask was for a green taxonomy, which was announced days later by Deputy Prime Minister and Minister of Finance Chrystia Freeland during PRI in Person 2024 in Toronto.[1] The federal government also has opportunities to incentivise disclosures through procurement requirements.

Issuers tend to be unsupportive of reporting or disclosure requirements and regularly describe obligations around transparency as overly burdensome. While this dynamic is often present in public debate, issuers are beginning to recognise how reporting can contribute to value creation and enhance competitiveness. Escalating this with issuer boards and CFOs directly could improve understanding of the opportunities provided by the reporting exercise and remind them of how this can support their role in informing strategy discussions over the medium- and long-term. Delaying of the reporting exercise will prove even more burdensome if Canadian issuers have to catch up to international expectations to secure necessary capital. One attendee noted that the 43-101 Standards of Disclosure for Mineral Projects initially caused fears that mining companies would leave the Canadian market. Instead, it resulted in the improvement of international reporting standards.

[1] Melissa Shin, BNN Bloomberg, "Canada Green Taxonomy Unlikely to Include New Natural Gas Projects" (October 9, 2024), https://www.bnnbloomberg.ca/investing/commodities/2024/10/09/canada-green-taxonomy-unlikely-to-include-new-natural-gas-projects/.

Call to action: Issuers need engagement and support to understand the value of reporting. Although corporate boards increasingly recognise the utility of standardised disclosures to inform forward-looking strategy, the upside remains largely under-appreciated.

3. IN THE ABSENCE OF MANDATORY ISSUER DISCLOSURES, INVESTORS INCUR SIGNIFICANT COSTS

One primary takeaway from discussion was that regulators must consider the costs to investors in gathering relevant sustainability information on investees. Until now, the broader discussion on sustainability disclosures has focused on the costs to issuers in calculating and preparing their sustainability related information. However, comparatively little attention has been paid to the costs incurred by investors in accessing such information without mandatory issuer disclosures.

To support this argument, investor participants described the two most common options: 1) obtain and estimate sustainability data themselves; or 2) pay third-party data providers for their own in-house estimates of corporate sustainability information. While technology has improved data gathering in recent years, both cases can involve significant expenses of both time (in terms of staff hours) and money. In some cases, investors noted that such information could cost millions of dollars to accurately estimate. Moreover, without issuer data to substantiate their calculations, such estimates are often difficult or impossible to verify which creates significant risk to the investors.

Investors also noted the difficulties with obtaining and using Scope 3 information, which is often disaggregated into 15 separate categories. Participants recounted instances where issuers provided irrelevant or otherwise un-actionable information, such as robust data on business travel but comparatively little on information more relevant to the issuer's sustainability risks and opportunities. Only a handful of categories are typically material for investors. Participants agreed that sustainability disclosures at the entity level and demonstrated alignment of activities to a green taxonomy were necessary elements to inform credible issuer transition plans.

Call to Action: Regulators ask investors to engage proactively to communicate the costs of obtaining sustainability data and how they use it in the investment process. They want to better understand how investors are incorporating the sustainability information (both qualitative and quantitative) in investment decision-making, including issuer scenario analyses. They are looking for well-cited arguments from investors; consultation responses reviewed by legal professionals are considered most effective.

4. ADDITIONAL RESOURCES ARE REQUIRED TO ESTABLISH MEANINGFUL ENGAGEMENT WITH INDIGENOUS PEOPLES

Call to Action: Adequate resourcing for meaningful, systematic engagement with Indigenous groups is necessary to inform the development and implementation of corporate sustainability disclosures in Canada to ensure that Indigenous rights and interests are reflected in standard setting and broader policy making processes. Reported data should be accessible to Indigenous investors and beneficiaries as many care deeply about sustainability issues.

APPENDIX

BACKGROUND AND INTERNATIONAL CONTEXT

More than a decade ago, the Canadian Accounting Standards Board required the use of the International Financial Reporting Standards (IFRS) for publicly accountable enterprises. Canada now faces a similar decision, this time to adopt the corporate sustainability disclosure standards developed by the IFRS Foundation's International Sustainability Standards Board (ISSB). This is the confirmed direction of travel for dozens of major economies and smaller resource-based economies alike.

Canada's Office of the Superintendent of Financial Institutions' (OSFI) Guideline B-15 outlines expectations for prudential climate risk management. It was one of the first regulators to point to the IFRS S2 climate standard in its drafting process. OSFI updated the final guidance in March 2024 to *"ensure that the expectations for federally regulated financial institutions…align with the [ISSB]'s final IFRS S2 Climate-related Disclosures standard."* To varying degrees, Canadian investors, regulators, policymakers, stakeholders, and rightsholders have participated in the development and consultation process for the ISSB standards, perhaps most directly evidenced by the opening of the ISSB office in Montreal in May 2024.

While the proposed Securities and Exchange Commission (SEC) climate rule does not require Scope 3 reporting, the US market sees significant voluntary adoption of the ISSB global reporting baseline by issuers. This is in response to consistent and strong support for the adoption of ISSB standards from US investors, including some of the world's largest investment managers. Actions undertaken by the US are significant for Canada, but the 2 markets are not comparable. Australia is much more analogous to Canada in terms of financial system size and economic reliance on fossil fuels. It has employed extensive consultation and deliberation to arrive at a national climate standard which is completely aligned with the IFRS S2, including disclosure of Scope 3 emissions.

STATE OF PLAY IN CANADA

Canada is a federation with a complex regulatory landscape. Provincial and territorial securities administrators oversee securities regulation for their respective jurisdictions, cooperating under the umbrella of the Canadian Securities Administration (CSA). The CSA regularly engages with other national securities regulators through the International Organization of Securities Commissions (IOSCO) to understand – among other issues – the progress of sustainability disclosure regulations in markets such as the EU, US, and Australia.[2]

Nationally, the Government of Canada has committed to uphold the Paris Agreement on December 12, 2015, thereby undertaking efforts to hold the rise in global average temperature to well below 2 degrees Celsius and to pursue best efforts to hold it below 1.5° C. Canada submitted its long-term greenhouse gas strategy to the UNFCCC in November 2016.

[2] One participant noted that globally, between 25 and 30 jurisdictions are considering corporate sustainability disclosure regulations in some form, with significant alignment with ISSB standards (barring a few notable exceptions).

The federal government and several provincial governments are taking concrete steps to implement policy measures to achieve climate commitments.[3] While the Government of Canada announced progress on commitments made in the *2023 Fall Economic Statement*, the need to align the financial industry with international climate commitments is still critical, including through building out the enabling policy environment with sustainability disclosures and a taxonomy. Canada faces an annual funding gap between $125 billion and $140 billion in the necessary financing to reach net zero by 2050.[4] While government's role is clear, it is still up to investors to play their part.

Canada have been deliberating on corporate climate disclosure for some time now, seeking to strike the right balance between maintaining a globally competitive level of ambition and appropriate proportionality. In 2019, the government mandated Expert Panel on Sustainable Finance issued a report covering "a package of recommendations aimed at 'connecting the dots' between Canada's climate objectives, economic ambitions and investment imperatives." The fifth recommendation encouraged Canada to develop a plan to implement the recommendations of the Task Force on Climate-Related Financial Disclosures (TCFD), which has since merged into the ISSB after its formation. [This recommendation was seconded by the Sustainable Finance Action Council (SFAC) in 2022,[5] which provided support during CSA's initial consultation on corporate climate disclosures (National Instrument 51-107)].

The Canadian Sustainability Standards Board (CSSB) is an independent standard setter mandated to draft sustainability disclosure standards for the Canadian market. At the time of writing, the CSSB was still deliberating the final versions of the Canadian Sustainability Disclosure Standards (CSDS), having consulted with the market on topics of timing of reporting, climate resilience and scenario analysis, and the proportionality, scalability and appropriateness of the standards for the Canadian economy. Issuer feedback focused on the burden of cost, capacity, education amongst staff, guidance for forward-looking disclosures. Once finalised, the standards can be picked up by Canadian policy makers.[6] Existing securities legislation does contain a safe harbour for forward-looking information from issuers, but Canadian regulators will need to clarify time frames related to credible climate targets and transition plans. The CSSB's approach was outlined in its 2025 Annual Plan, including support for implementation of the standards and efforts to "advance trust and relationship-building with Indigenous Peoples, including via a 12-month educational program."

The Independent Review Committee which advised the creation of the CSSB, also suggested establishing a council for Indigenous groups to provide input on financial issues, with experts picked by rightsholders. Indigenous peoples have entrenched rights over lands and resources that are recognised by the Canadian Constitution and the United Nations Declaration on the Rights of Indigenous Peoples Act; there is a legal requirement to involve Indigenous groups in business development decisions that affect them. Indigenous peoples have long been active in sustainability issues, including the fight to protect global and local biodiversity, and sustainability disclosures are no

[3] A federal representative cited the study on effective climate policy measures authored by Stechemesser, Annika et al., "Climate policies that achieved major emission reductions: Global evidence from two decades" (22 August 2024).
[4] Government advances Made-in-Canada sustainable investment guidelines and mandatory climate disclosures to accelerate progress to net-zero emissions by 2050 - Canada.ca
[5] SFAC was launched by the Government of Canada in 2022 and is comprised of 25 public and private organizations representing more than $10 trillion in assets, including pension funds, banks, and insurance companies.
[6] On 9 October 2024, the Government of Canada announced it will mandate climate-related financial disclosures for large, federally incorporated private companies.

different. In Canda, Indigenous groups, many of whom are also major investors, have supported mandatory corporate sustainability disclosures.