leadership beyond finance

June 10, 2024

Canadian Sustainability Standards Board (CSSB)

Re: CSSB Exposure Drafts
- Proposed Canadian Sustainability Disclosure Standard (CSDS) 1, General Requirements for Disclosure of Sustainability-related Financial Information
- Proposed Canadian Sustainability Disclosure Standard (CSDS) 2, Climate-related Disclosures.

This submission is being made by the ESG and Sustainability Committee of the Financial Executives International Canada (FEI Canada). FEI Canada has the following purpose:
"As an organization of professionals, FEI Canada's mission is to be the leading voice and informed choice for senior financial executives across the country by providing professional development, networking opportunities and thought leadership in the delivery of valuable "Canadian-centric" knowledge to our members."
Our members serve as financial leaders in a variety of industries and across a wide spectrum of entities in a global business environment. Consequently our comments are neither industry specific nor entity specific. Our intent is to provide objective and informed opinion that will maximize value to all stakeholders. We have addressed your survey questions in Appendix A as well as providing the following overview of our position. We also provide in Appendix B what we plan to submit to the Canadian Securities Administrators (CSA).

Overview of FEI Comments on CSSB 1 and 2

- We appreciate the work of the CSSB in Canadianizing the relevant international standards promulgated by the International Sustainability Standards Board. It is important to adapt the International Standards to consider unique aspects of the Canadian business and investment environment. Canadian standards must enable businesses to responsibly flourish in a global economy in which at least some competitors will not comply with sustainability standards and therefore will not incur those compliance costs. In a global business environment, this may result in some Canadian businesses being less competitive.
- There is already quite extensive public reporting of emissions data and related policy and risk analysis by publicly accountable enterprises in Canada. A consistent set of Canadian standards will foster consistency, comparability, and reliability of such reporting, which will serve preparers, assurance providers, advisory firms, investors, and analysts.
- We expect to see more enterprises voluntarily add or increase sustainability and climate-related disclosures in response to requests/demands from stakeholders, particularly investors and financiers/banks. Publicly accountable enterprises which are upstream and/or downstream in the supply chain will also be requesting sustainability and climate-related information. This creates complexity in the reporting and disclosure processes. Allowing this marketplace to work with all such voluntary reporting to be in accordance with CSSB 1 and 2 has a lot of merit. We encourage regulators to consider continuing with voluntary reporting/disclosure. It has the obvious benefit of resources being focused where most needed rather than a universally mandated

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requirement and allows businesses to effectively and economically 'invest' in sustainability and socially responsibly business practices.

- The longer implementation timeframes (compared to ISSB proposals) proposed by CSSB are helpful. They certainly should not be reduced, and we would support even longer implementation timeframes (e.g., a further year or two). The resources, particularly the appropriate human resources, are already scarce on a global basis for most enterprises. However it is important that publicly accountable enterprises immediately commence their work to plan, finance and implement reliable systems and processes to assemble and verify sustainability and climate-related disclosures.
- The scrutiny being applied regarding climate-related disclosure and the risk of unintended consequences is demonstrated by the recent Bill C59. In an analysis of the legislation, the law firm Norton Rose Fulbright wrote: "Companies making climate-related, net zero, environmental impact or similar claims will have to consider the increased risk stemming from these new greenwashing provisions, while at the same time navigating the possibility of private applications." Don Braid's column in the May 30, 2024, Calgary Herald wrote: "The amendments to Bill C-59 are aimed at "greenwashing" — roughly defined as making false statements about positive climate action. The larger goal is to stop companies from stating the inconvenient truth that they are making significant gains on emissions." We urge caution when implementing stringent climate-related disclosures so as not to unintentionally expose Canadian businesses to allegations of "greenwashing."
- On one hand, reporting entities can counter criticism by pointing to compliance with independent CSSB standards but there may be negative consequences for reporting issuers from expanded climate-related reporting.
- As CSSB has identified, the key factor is the very practical one of sufficient human resources to gather, organize, present, and possibly provide independent assurance for the necessary information. The effort for this work is an investment by the business into corporately sustainable and responsible business practices. While it may be difficult to effectively measure a return on this investment, a reasonable amount of expenditure can be made for an appropriate and reasonable amount of analysis, reporting and assurance. We hope the standards are aligned with this cost/ benefit consideration.
- Publicly accountable enterprises will be required to collaborate with all participants in their supply chain, large customers, controlled entities, and others to establish systems and processes to collect the necessary data. Preparing public reports and commentary will require a significant effort as there will be private or sensitive data that will concern suppliers, customers, other stakeholders, or the reporting entity itself. This may require extensive discussion and negotiation. We appreciate that CSSB acknowledged this reality and provided guidance as to how enterprises should deal with commercially sensitive information.
- The resource (human and other resources) issue is particularly an issue for Scope 3 emissions, so the proposed longer implementation period for Scope 3 is a practical necessity. An even longer implementation period of one or two years will afford organizations the time to develop collaborative Scope 3 emissions assessment practices that are consistent and reasonable for all parties involved in the Scope 3 emissions generation.
- Boards of directors, assurance providers and likely others are concerned about their responsibility and potential liability for this emerging reporting obligation. CSSB should be aware of this important matter, although it will fall primarily to applicable regulators to establish "safe harbors" as appropriate. CSSB or regulators may want to consider limits on professional liability related to services provided in the preparation of any CSSB related reports as many methodologies used for emissions analysis, assessment and reporting may be inherently faulty based on the inability to accurately measure emissions by one or more of the business entities in the supply chain servicing the reporting entity. The source of emissions may be several entities down the supply chain. Consequently obtaining reliable and timely data may be challenging.

- We note that the US Securities and Exchange Commission did not require reporting Scope 3 emissions in its pronouncement on March 6, 2024. Differences between ISSB and the SEC (including US GAAP) are particularly challenging for Canada given the substantial number of cross-border issuers and an integrated capital market. The challenge this poses is primarily an issue for CSA, but CSSB should remain vigilant as to consequences and align standards to the extent possible with the unique aspects of the Canadian capital markets.

Thank you for considering our comments and recommendations.

Arthur Madden, CPA CMA MBA ICD.D
Chair, ESG and Sustainability Committee

Cc Mr. Brian Banderk, Chair, CSA Chief Accountants Group

APPENDIX A

Survey Questions on CSDS 1, CSDS 2 and Criteria for Modification Framework

Part 1: Basic information

1. **Responses are made public on the website once the document is closed for comment unless you request that your response be private.** Public
2. **What is your name?** Arthur Madden, CPA CMA MBA ICD.D (arthurmadden91@gmail.com, 403-473-8547) and Steven Glover, FCPA FCA MBA (stevenglover@shaw.ca, 403-990-3876), representing the ESG and Sustainability Committee of Financial Executives International Canada
3. **Are you interested in future collaboration with CSSB? If so, please leave your contact information.** Yes, see above
4. **Are you responding on behalf of an organization or a member of the public?** See above
5. **If responding as a member of the public, what is your relationship to sustainability disclosures? If responding on behalf of an organization, what is your organization's relationship to sustainability disclosures? If more than one option applies, please select the option that most closely reflects the perspective you're providing. ***
   FEI primarily represents preparers of sustainability disclosures in a wide variety of industries. The FEI mission states in part: "FEI Canada's mission is to be the leading voice and informed choice for senior financial executives across the country."
6. **If responding on behalf of an organization, in which industry does it operate?** See above
7. **If responding on behalf of an organization, what type of organization is it?** See part 5 above.
8. **If responding on behalf of an organization, what is the size of the organization?** FEI has 1,100+ members
9. **If responding on behalf of an organization, in what province is your organization headquartered?** Ontario
10. **If responding as a member of the public, do you identify as an Indigenous person? If responding on behalf of an organization, is your organization Indigenous-owned and/or led? (An Indigenous-led organization refers to a group, institution, or entity that is primarily governed, operated, and led by Indigenous people or communities)** N/A
11. **If you identify as an Indigenous person, please specify your Indigenous Identity.** N/A

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

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.

12. **Do you agree that the two-year transition relief for disclosures beyond climate-related risks and opportunities is adequate?** We agree with the need for transition relief with the Exposure Draft provision as a minimum. Refer to the overview comments, which recommend a longer implementation period.
13. **Please provide your reasons for your response to question 12.** Refer to our comments in the overview and below.

14. **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.**
    Refer to Appendix B, which sets out comments we plan to make to the Canadian Securities Administrators (CSA). In summary, our planned comments to CSA include the following three recommendations:

a) Voluntary or mandated disclosure by Canadian reporting issuers should be mandated to be in accordance with CSDS standards.
b) Mandated CSDS disclosure requirements should apply only to TSX reporting issuers. The principle of proportionality is the primary argument supporting this recommendation.
c) Mandated CSDS disclosure requirements should be in the Annual Information Form (AIF), which is a required filing for TSX reporting issuers only, so it automatically encompasses the above recommendation.

We strongly support the principle of proportionality. An alternative to the above distinction between TSX and non-TX reporting issuers could be a size test. We recommend the Canadian equivalent to the size test applied in the UK for certain regulations for reporting issuers, i.e. Market cap greater than 200 million Euros **plus** annual turnover greater than 750 million pounds **plus** number of employees greater than 750.

<u>Timing of reporting (proposed paragraphs 64-69 of CSDS 1)</u>

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.

15. **Is any further relief or accommodation needed to align the timing of reporting?**
    Yes, refer to the comments above that the CSDS disclosure should be annual only and part of the Annual Information Form for reporting issuers. This makes CSA-mandated reporting for fiscal 2026 possible albeit still challenging from a data and resource perspective.
16. **If you responded 'Yes' to question 15, please specify the nature of the relief or accommodation and provide the rationale behind it.** See above.
17. **How critical is it for users that entities provide their sustainability-related financial disclosures at the same time as its related financial statement?**
    It is not critical. Refer to our recommendation that mandated sustainability and climate-related disclosures for reporting issuers should be annual only as components of the AIF. Reporting issuers would be free to voluntarily adopt quarterly reporting in conjunction with quarterly financial statements. All sustainability and climate-related reporting (mandated or voluntary) should be mandated to be in accordance with CSDS standards.
18. **Please provide your rationale for your response to question 17.** See above – the scenario analysis of risks and opportunities aligns with the current risk analysis required for the AIF.

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<u>Other Issues</u>

19. **Do you agree that the requirements in the 'Scope' section are appropriate for application in Canada?** Yes
20. **Please explain the rationale for your response to question 19.** We support the principle followed by CSSB, that Canadian standards should align with international standards as much as possible. This significantly simplifies the reporting for enterprises that also fall under the international reporting standards. Note our comment that deviation from the SEC requirements poses challenges, not just for those with cross-border listings but all reporting issuers, given the strong integration of the Canada and US capital markets. Canada chose IFRS over FASB some 15 years ago, so it makes sense to continue to follow international standards. That said, CSSB should be involved in developing and setting international standards to which Canadian issuers are to adhere. Canadian business practices and reporting have been innovative and leading-edge in industries such as mining, agriculture, oil & gas, technology, telecommunications, etc. Canada is seen as a global leader in these sectors, including better and more realistic sustainability reporting practices that allow for accuracy, accountability, cost effectiveness, etc. CSSB can play a valuable role by serving as a conduit to the international standard setters so that they may benefit from the input and experience of these Canadian entities.
21. **Do you agree that the requirements in the 'Conceptual Foundations' section are appropriate for application in Canada?** Yes
22. **Please explain the rationale for your response to question 21.** The qualitative characteristics (relevant, comparable, verifiable, timely, understandable, materiality, reporting entity, fair presentation, connectivity) are appropriate in Canada.
23. **Do you agree that the requirements in the 'Core Content' section are appropriate for application in Canada?** Yes
24. **Please explain the rationale for your response to question 23.** Governance, strategy, risk management, metrics and targets are appropriate for application in Canada and align well with our recommendation that the CSA mandate this disclosure as components of the AIF. Further, such content need not be quarterly as there is not likely to be material changes quarter over quarter. The costs of quarterly preparation would be significant (particularly in this time of scarce human resources for this emerging field) and, in our view, would not provide benefits to the enterprise or users of the information sufficient to warrant those prohibitive costs. However, reporting issuers are free to voluntarily report quarterly, and that reporting should be in accordance with the CSDS.
25. **Do you agree that the requirements in the 'General Requirements' section are appropriate for application in Canada?** Yes, except for the timing, which we recommend should be annual only as a component of the AIF. The AIF reporting timeframe aligns with the timeframe of the annual financial statements allowing more accurate, more integrated, and more comprehensive reporting to stakeholders. Publicly accountable enterprises may voluntarily report in accordance with this standard on an interim basis (usually quarterly for Reporting issuers) and if so, that reporting should be subject be in accordance with the CSDS standards. Most entities would be under extreme pressure to report per the proposed Standard in Q1 2025, but we believe an annual reporting requirement will be manageable for fiscal years beginning on or after January 1, 2026. Should the CSA decide that quarterly reporting be mandated, the earliest reasonable effective date would be fiscal years beginning on or after January 1, 2026, and preferably January 1,2027. This longer timeframe is similar to the implementation timeframe provided for the conversion to IFRS. Implementation of CSDS will require a similar timeframe.
26. **Please explain the rationale for your response to question 25.** The General Requirements align well with the principles of IFRS and Canadian GAAP models, so they seem appropriate. Note the comments above regarding the timing of reporting to align with our recommendation that this disclosure should be a component of the AIF.
27. **Do you agree that the requirements in the 'Judgements, Uncertainties, and Errors' section are appropriate for application in Canada?** Yes
28. **Please explain the rationale for your response to question 27.** This section aligns with the principles of IFRS and Canadian GAAP models, so it should be appropriate for application in Canada.
29. **Do you agree that the requirements in 'Appendices A-E' are appropriate for application in Canada?** Yes

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30. **Please explain the rationale for your response to question 29.** Similar to the comments above, these requirements (and guidance) align with the principles of IFRS and Canadian GAAP models and so should be appropriate for application in Canada. Note our recommendation that only annual reporting be mandated. Consequently, requirements in these Appendices related to interim reporting would be voluntary. We also emphasize the practical reality of "commercially sensitive information" will have broad applicability and will be top of mind for many publicly accountable enterprises.

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

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.

31. **Is transition relief required for climate resilience disclosure.** Yes
32. **If you responded 'Yes' to question 31, please specify for how long and why.**

The longer implementation timeframes (compared to ISSB proposals) proposed by CSSB are a minimum. They certainly should not be reduced, and we would recommend that CSA mandate an effective date no earlier than those fiscal years commencing on or after January 1, 2027. This implementation timeframe considers the significant resource constraints, the need for comprehensive systems and processes (not ad hoc data compilation) and the importance of reporting quality information. Unrealistic implementation timeframes will result in incomplete reporting or "back of the envelope" estimates. The recommended extended timeframe allows for better analysis and consideration of various operational factors that potentially impact the reporting body's emissions status and plans for reduction. The dynamic interaction of a range of factors when deciding cost/ benefit metrics for resiliency strategies will be better assessed with this extended timeline.

As CSSB has correctly identified, the key factor is the very practical one of sufficient human resources to gather, organize, present, and possibly provide independent assurance for the necessary information. Note our earlier comments that we believe there will be widespread concern about commercially sensitive information and unintended consequences (e.g. allegations of "greenwashing").

33. **Is further guidance necessary?** Yes. We would expect industry associations, accounting firms, law firms or other advisory firms to actively generate guidance in addition to what CSSB might provide. Ideally a group representing users (e.g. investors or analysts) might also provide guidance as to their expectations.
34. **If you responded 'Yes' to question 33, please specify the specific elements that require guidance and why.** Model disclosures by industry would be helpful. Examples of good disclosures as well as substandard disclosures is a helpful approach similar to how the CSA presents some of its reports. Industry associations provided significant and helpful guidance for the conversion to IFRS and hopefully will do so for CSDS.
35. **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.
    Nothing further recommended at this time.

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.

36. **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?** Refer to our planned recommendations to the CSA, e.g. that it mandate annual disclosure in the AIF for fiscal years beginning on or after January 1, 2027. As the SEC does not require the disclosure of Scope 3, the CSA may also decide to so align its mandated Canadian regulation.
37. **Please explain the rationale for your response to question 36.** See the comment above. The scale of estimation for any Scope 3 emissions is beyond any other regulatory disclosure in the history of such. Implying any degree of accuracy, verifiability, reliability, or comparability to other entities must be approached cautiously. The reporting enterprises have no control over Scope 3 emissions. Reporting issuers will be required to invest a lot of resources in systems and processes to report broad and, at least in the initial years, unreliable estimates of Scope 3 emissions over which they have no control. Mandating such disclosure by reporting issuers must be carefully considered. There could be significant unanticipated consequences. We trust that the CSA will be cautious in making its decision regarding Scope 3 emissions. Note our comments in the overview regarding unintended consequences regarding Bill C59.
38. **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.** See above – at least one more year. The CSSB was formally announced in June 2022. It took nearly two years for it to release its first exposure draft in March 2024. It is unrealistic that reporting enterprises might be mandated to start reporting in a lessor timeframe. Refer to comments above. We emphasize the need for systems, processes, and test periods. Reporting issuers will need to negotiate with suppliers and customers (entities both downstream and upstream in its supply chain) to obtain the required regulatory information. We emphasize the importance of the quality of information rather than the speed of information.

<u>**Other Issues**</u>

39. **Do you agree that the requirements in the 'Objective' section are appropriate for application in Canada?** Yes
40. **Please explain the rationale for your response to question 39.** A focus on the primary user of general purpose financial reports is reasonable.
41. **Do you agree that the requirements in the 'Scope' section are appropriate for application in Canada?** Yes
42. **Please explain the rationale for your response to question 42.** It is reasonable that the reporting considers both physical and transition risks. We note that many public accountable enterprises may never have incurred a material climate-related loss, nor expect one to occur.
43. **Do you agree that the requirements in the 'Core Content' section are appropriate for application in Canada?** We are in generally in agreement but are cautious, as the "devil is in the details."
44. **Please explain the rationale for your response to question 43** Many enterprises will face a major challenge to establish reliable and verifiable systems and processes to support this extensive reporting requirement at a time that the relevant human resources are scarce and such reporting is also new in other jurisdictions. Canadian companies with foreign operations, particularly those in less developed economies, will find it challenging to assemble reliable data and project climate-related scenarios. Many resource-based Canadian entities operate in less developed countries. Those countries are likely to experience a wide variety of climate-related events different from what might be experienced in Canada. Global supply chains comprised of multiple vendors/suppliers and multiple stages will create major challenges in compiling reliable data to meet the sustainability and climate-related standards . These circumstances (again very prevalent among Canadian entities) increase the challenges of accurate and timely reporting.

    Scenario analysis requires high-level expertise that is likely to remain a scarce resource for many years, and there are no well-established precedents yet in any jurisdiction. If pressed into premature implementation, the reporting enterprises will resort to "boilerplate" (likely lengthy) and generalities. That precedent will be difficult to overcome in future years. Users will also be disappointed and become skeptical and even hostile.

Canada's industries, particularly those in the resources, are extremely capital-dependent. There are already challenges competing for capital on a global scale. Climate and other sustainability reporting can be helpful, but that reporting must be of reasonable quality and prepared at a reasonable cost. Forcing disclosures prior to allowing the time for the establishment, testing and integration into both the upstream and downstream value chains, may cause long-term or even permanent damage. Better to focus on quality rather than speed to market. The following quote from the Appendices makes this point succinctly " Climate-related scenario analysis can be resource intensive and might – through an iterative learning process – be developed and refined over multiple planning cycles." We recommend that publicly accountable enterprises be allowed to develop their frameworks over a couple of planning cycles if not "multiple planning cycles." A typical planning cycle in today's world is years, not months, as we reflect on the timelines to plan any major infrastructure project in Canada in today's environment. Consider the time it took the CSSB to publish its first exposure draft which is essentially a duplicate of the international standard. We understand the importance of due process which no doubt contributed to this timeline for the CSSB. It is critical that the CSSB and CSA consider the same for due process in how reporting issuers build and evaluate the systems and processes necessary for reliable reporting of climate-related disclosures.

45. **Do you agree that the requirements in 'Appendices A-C' are appropriate for application in Canada?** Yes
46. **Please explain the rationale for your response to question 45.** The Appendices contain helpful and useful information and guidance. We note particularly paragraph B7 quoted above. The Appendices document the challenging implementation process faced by publicly accountable enterprises and particularly finance teams. Finance teams are also facing many other challenges at the same time, e.g. Bill 211 reporting, IAS 18, significant tax changes, inflation, high interest rates, remaining supply chain shortages, government-led onshoring initiatives, looming shortages of key transition minerals, etc.

<u>Part 4: Based on CSSB Consultation Paper, Proposed Criteria for Modification Framework</u>

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

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.

47. **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
48. **Please provide reasons for your response to question 47.** Seem reasonable.
49. **Are there other criteria that the CSSB should consider including in its proposed Criteria for Modification Framework?** None recommended at this time.

If you responded 'Yes' to question 49, please explain what criteria and provide the rationale behind it.

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Appendix B

Planned Comments to the Canadian Securities Administrators

Regarding CSDS 1 & 2 – Sustainability and Climate-related Disclosures

- The Canadian Securities Administrators (CSA) are responsible for determining whether sustainability and/or climate-related reporting should be mandated for reporting issuers. The CSA stated the following with the release of the CSSB Exposure Drafts on March 13, 2024:

  "The CSA continues to monitor and assess international developments in this area, including the United States Securities and Exchange Commission (SEC)'s climate-related disclosures rule approved on March 6, 2024.

  As noted in previous market updates, the CSA remains committed to working towards disclosure requirements that support the assessment of material climate-related risks, reduce market fragmentation, and contribute to efficient capital markets while considering the needs and capabilities of issuers of different sizes. When the CSA publishes its revised rule, it will seek public comments on a number of matters, including the scope of application and the need for additional time and/or guidance for reporting issuers to comply with certain disclosure requirements."
- We are pleased to note the CSA's acknowledgement of the critical importance of the SEC requirement, the scope of the application and the potential need for additional time and/or guidance. Refer to our comments in response to the CSSB survey in which we strongly stress the importance of these factors and the need for additional time. Also, note our comments that the market is working reasonably well. Those holding or offering debt or equity and those higher up in the supply chain are already mandating sustainability and/or climate-related disclosures. Mandating that any such marketplace-driven reporting be in accordance with CSSB standards is a major step forward and may be all that is required at this time.
- As a minimum, we recommend that all reporting issuers should be mandated to report in accordance with the CSSB standards whether they are making sustainability or climate-related disclosures voluntarily or are so mandated. As described in our comments to the CSSB, the sustainability and climate-related disclosure marketplace has operated for several years. This market-based approach has led many reporting issuers (both TSX and non-TSX) to provide some level of sustainability and/or climate-related disclosure. The CSA will have to consider how to accommodate the many cross-listed TSX and TSX-V entities subject to SEC reporting requirements for sustainability and climate-related disclosures.
- If the CSA decides to mandate sustainability and/or climate-related disclosures, we recommend an effective date no earlier than those fiscal years commencing on or after January 1, 2027. Consideration might be given to an earlier date, e.g., January 1, 2026, only if that earlier disclosure is of limited scope.
- We also recommend that any mandatory disclosure be annual, not quarterly. We do not anticipate significant changes in emissions quarter over quarter, and thus, annual reporting is sufficient and appropriate for both emissions and risk/scenario analysis. The prohibitive costs of detailed quarterly reporting would not generate any material benefits. Most importantly, annual reporting reduces the implementation costs and acknowledges the significant resource constraints all reporting issuers face currently. Establishing systems and processes, compiling data, preparing analysis/commentary, and drafting material for publication will be very demanding, time consuming and resource intensive. Assembling and training human resources for this emerging field will be a major challenge. Mandating quarterly reports will be costly and, in our view, of limited value given the degree of estimation, particularly for scope 3 emissions. The reporting issuer's obligation to report material changes would be sufficient to deal with those rare circumstances when a material change to sustainability or climate-related circumstances in an interim period would warrant disclosure to the markets.
- We further submit that disclosures in accordance with CSDS 1 and 2 should be mandated as components of the Annual Information Form (AIF). This appears to be a good fit given that the CSSB disclosures include scenario analysis of risks and opportunities, which align well with the general structure of the AIF. As noted

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above, we also question the usefulness of quarterly data and analysis and thus recommend that mandatory disclosure be made annually and in the AIF.

- If the CSA does decide that mandated disclosures ought to be imposed on at least a segment of reporting issuers, we recommend that "proportionality" should drive the CSA decision-making process. Historically, the CSA has affirmed this concept by distinguishing the requirements for TSX reporting issuers from non-TX reporting issuers. We recommend this practical approach be used in this instance with the CSSB standards being mandated only for TSX reporting issuers. Potential mandatory reporting for non-TX reporting issuers might be considered down the road. In our view that consideration should be no sooner than five years beyond the effective date for TSX issuers.
- This approach allows scarce resources (human and other) to be focused on entities with by far the larger capitalization, emissions and related risks and opportunities. The issue of scarce human resources is applicable as much to the analysts and other user base as it is to the preparer population.
- An alternative to the above distinction between TSX and non-TX reporting issuers could be a size test. Should CSA consider this option, we recommend the Canadian equivalent to the size test applied in the UK for certain regulations for reporting issuers, i.e., Market cap greater than 200 million Euros **plus** annual turnover greater than 750 million pounds **plus** number of employees greater than 750.
- Boards of directors, assurance providers and likely others are concerned about their responsibility and potential liability for this emerging reporting obligation. The CSA should establish "safe harbors" as appropriate.
- An important consideration is the liability and obligation of a reporting entity for emissions data and other information related to their vendors/ suppliers. Many small and medium businesses in the reporting issuer's supply chain may not have the internal resources to assess and report properly. The reporting issuer may need this information in the context of reporting Scope 3 emissions or other required information. There is a substantial risk that key smaller suppliers/ vendors may not have or be unwilling to devote the resources to provide the required information. Consequently, they may no longer be viable providers of key products and services. The implications are negative for those smaller suppliers but also a reporting issuer should it be severely restricted in sourcing business products and services necessary for its business. Safe harbour provisions are appropriate for such business-related circumstances as well as for investor or other concerns.

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