

July 25, 2022

Submitted Electronically

Mr. Emmanuel Faber, Chair
International Sustainability Standards Board
IFRS Foundation
Columbus Building
7 Westferry Circus
Canary Wharf
London, E14 4HD, UK

Re: International Sustainability Standards Board consultation on Exposure Drafts of IFRS S1 General Requirements for Disclosure of Sustainability-related Financial Information and IFRS S2 Climate-Related Disclosures: Canadian Securities Administrators' Response

Dear Mr. Faber:

The Canadian Securities Administrators (the **CSA** or **we**) is an organization of Canada's provincial and territorial securities regulators whose objective is to improve, coordinate and harmonize regulation of the Canadian capital markets. The CSA, which announced strong support for the establishment of the International Sustainability Standards Board (**ISSB**) in October 2021, commends the ISSB on its progress in developing a global reporting baseline that provides investors with comparable information about companies' sustainability-related disclosure. We welcome the opportunity to comment on the two proposed IFRS Sustainability Disclosure Standards published by the ISSB:

- 1) IFRS S1 *General Requirements for Disclosure of Sustainability-related Financial Information* (**General Requirements Exposure Draft** or **S1**), and
- 2) IFRS S2 *Climate-related Disclosures* (**Climate Exposure Draft** or **S2**, and collectively with S1, the **Exposure Drafts**).

General comments of support

The CSA supports the ISSB's stated objective of developing a "comprehensive global baseline of sustainability disclosures for the capital markets" that are designed to meet the information needs of investors.

(1) Establishing a global baseline to meet investor demand

The Exposure Drafts are an important step forward in the delivery of a global baseline for consistent and comparable sustainability reporting that would enhance industry reporting and lead to more decision-useful disclosure for investors. A global baseline supports assessments of sustainability-related risks, reduces market fragmentation and contributes to efficient capital markets.

The CSA agrees with the need for standards that elicit consistent and comparable disclosures for investors. In October 2021, the CSA published for comment proposed National Instrument 51-107 *Disclosure of Climate-related Matters* (**Proposed National Instrument 51-107**) that proposed mandatory climate-related disclosures. The CSA received 131 responses from a wide variety of stakeholders, including investors, issuers and industry associations. One particularly strong message in the comments was that investors and other users of financial information need reliable, relevant, clear and comparable information on climate-related risks and opportunities.

(2) Building on TCFD recommendations

We welcome the Exposure Drafts building on the Task Force on Climate-related Financial Disclosures (**TCFD**) recommendations and structuring the proposed disclosure requirements around the TCFD's four pillars of disclosure (governance, strategy, risk management and metrics and targets). There has been growing convergence around, and widespread market acceptance of, climate-related disclosures consistent with the TCFD recommendations. Similarly, Proposed National Instrument 51-107 contemplates mandatory climate-related disclosures largely consistent with the TCFD recommendations.

(3) Connectivity to financial statements

We support the Exposure Drafts' recognition of the importance of connectivity of sustainability-related disclosures with the information presented in financial statements. This connectivity in general financial reporting is important for investors to be able to assess issuers' enterprise value. We encourage the ISSB to maintain ongoing dialogue with the International Accounting Standards Board to discuss opportunities where financial statement disclosure can be further enhanced to support the importance of connected information pertaining to sustainability.

Specific areas of focus

There are a few specific areas for consideration by the ISSB noted below that we believe would further enhance the global baseline of the Exposure Drafts and encourage widespread adoption across jurisdictions.

(1) Climate-related disclosure first

The CSA supports the ISSB's response to investor demand for high-quality information on the critical issue of climate change. Developing a global set of sustainability reporting standards for climate-related information is

an appropriate starting point, with broader sustainability disclosure requirements to be considered in the future. However, requiring disclosure of all material sustainability-related information under the four pillars of governance, strategy, risk management and metrics and targets in the General Requirements Exposure Draft may have the unintended consequence of detracting from this “climate-first” approach. We therefore recommend that the ISSB consider the interaction between the General Requirements Exposure Draft and topic-specific standards. We further recommend issuing the Climate Exposure Draft in priority, along with those elements of the General Requirements Exposure Draft that are required to support the disclosures in the Climate Exposure Draft, such as fair presentation and materiality.

(2) Scalability and phasing requirements

The Exposure Drafts propose a “building blocks” approach to sustainability reporting. This promotes a globally consistent and comparable sustainability reporting baseline while also facilitating the addition of requirements that are jurisdiction specific or aimed at broader stakeholders. While building from the TCFD’s recommendations, the ISSB’s proposals are also more ambitious and contemplate more robust climate-related disclosures. In its “building blocks” approach, the ISSB should consider the needs and capabilities of issuers of different sizes and in diverse markets in order to foster widespread adoption of the ISSB standards. Smaller issuers may face a higher burden in producing the disclosures contemplated by the Exposure Drafts. As such, while the CSA is generally supportive of the Exposure Drafts, we believe that the ISSB should:

- Take a phased approach to certain requirements in the Exposure Drafts as sustainability and climate-related reporting evolves and matures. For example, as more fully described in the Appendix, it is premature at this time to require disclosure of Scope 3 greenhouse gas (**GHG**) emissions as well as scenario analysis or other assessments of climate resilience. While we recognize the value these disclosures may have for investors, phasing in these requirements or introducing them initially on a non-mandatory basis would allow more time for the maturation of methodologies for preparing these disclosures and for improved reliability and availability of data to support these calculations and analyses.
- Ensure the final reporting standards and guidance accommodates smaller issuers that may not have significant resources or sophisticated sustainability reporting expertise by providing scaling for requirements under “strategy” and “metrics and targets” pillars. In addition, implementation guidance and sample disclosures would assist smaller issuers in providing climate-related disclosures.

Phasing-in and building scalability into the ISSB standards is necessary to allow issuers of various sizes to provide explicit and unqualified statements of compliance with the ISSB standards.

(3) Industry-specific requirements

We recognize that there is value in having industry-based requirements for climate-related disclosures as they can provide useful, comparable information to investors on how climate change will affect issuers depending on their industry, business models and economic activities. However, we do not think that the Sustainability Accounting Standards Board (**SASB**)-based industry requirements for climate-related disclosures should be

mandatory at this time. In considering the volume and specialist nature of this content, issuers may face significant challenges in implementing the industry-based requirements, especially smaller issuers who typically have fewer resources and less expertise with sustainability reporting.

We encourage the ISSB to consider implementing these industry-based requirements as guidance to assist issuers when preparing their disclosures with the possibility that such requirements be made mandatory in the future. We believe that introducing industry-based sustainability reporting in this manner could better facilitate widespread adoption. Should the ISSB seek to have such requirements made mandatory in the future, stakeholders would benefit from having a comment period that is solely dedicated to reviewing these disclosure requirements.

(4) International alignment

In the CSA's view, it is important for the ISSB to work with securities regulators in jurisdictions that have proposed sustainability and climate-related disclosure rules in order to achieve consistency with the ISSB's final reporting standards.

Commenters on Proposed National Instrument 51-107 also noted the importance of establishing climate-related disclosure standards that are aligned with international regulatory developments to allow Canadian issuers to effectively compete in domestic and global capital markets. In particular, many commenters expressed a desire for the CSA to ensure consistency with future ISSB standards, and to carefully consider any future climate-related disclosure rules proposed by the Securities and Exchange Commission (**SEC**) in the United States given the proximity of our markets and the number of Canadian issuers that operate across jurisdictions. While the SEC's proposed rules, published on March 21, 2022, draw on the TCFD recommendations and are generally aligned with the Exposure Drafts, there are also key differences between the SEC's proposed rules and the Exposure Drafts.

Overall, the Exposure Drafts are an important step in meeting the needs of capital markets and advancing securities regulators' objectives in this area. Through our work as the CSA, as well as through our participation in IOSCO, we have a keen interest in continuing our dialogue with the ISSB. We are happy to assist in bringing forward global sustainability reporting standards that will best meet the needs of capital markets and serve the public interest.

Various global developments, including those that have recently significantly impacted financial and energy markets, have underscored the interconnectedness of sustainability matters, and the importance of considering them holistically. We encourage the ISSB to consider the impact of global developments on market conditions when prioritizing its work to develop future sustainability standards to ensure they provide high-quality, comprehensive information that is responsive to investors' evolving information needs.

Additional comments, in response to select questions in the Exposure Drafts, are outlined in the following Appendix. Please note that we are not expressing a viewpoint for those questions that we have not specifically commented on.

If you have any questions about this letter, please do not hesitate to contact us.

Yours very truly,

A handwritten signature in black ink, appearing to read "Stan Magidson", with a long horizontal flourish extending to the right.

Stan Magidson
Chair, Canadian Securities Administrators
Chair and CEO, Alberta Securities Commission

APPENDIX: RESPONSE TO SELECT CONSULTATION QUESTIONS IN EXPOSURE DRAFTS

Overall Approach: Question 1 (S1 and S2)

Opportunities

As mentioned earlier, many commenters on Proposed National Instrument 51-107 expressed a desire for the CSA to ensure consistency with future ISSB standards and climate-related disclosure rules proposed by the SEC in the United States. The SEC's proposed climate-disclosure rule focuses on mandatory disclosure requirements related to climate-related risks an issuer is exposed to, in contrast to the inclusion of both risks *and* opportunities in the Climate Exposure Draft. In developing a consistent approach to risks and opportunities, we recognize that some of the proposed disclosure requirements in the Climate Exposure Draft related to climate-related opportunities are designed to mitigate against "greenwashing". However, we also note that requiring disclosure of climate-related opportunities may not always elicit decision-useful information for investors but could instead result in anti-competitive concerns (to the extent such a requirement might be construed as requiring the disclosure of sensitive business information, as highlighted by the SEC) and lead to investor protection concerns arising from overly promotional and misleading disclosures, among other concerns. We would urge the ISSB to prioritize international convergence for this issue.

Connected Information: Question 6 (S1)

Current and Anticipated Effects: Question 6 (S2)

As discussed above, we support the Exposure Drafts' recognition of the importance of connectivity of sustainability-related disclosures with the information presented in financial statements. Some sustainability-related risks, however, involve different time horizons and assumptions than the ones used to measure assets and liabilities in the financial statements. We recommend that the final standards require disclosure of any material inconsistencies between financial data and assumptions used to prepare an issuer's financial statements and its sustainability-related financial disclosure outside the financial statements.

We also recommend that the final S2 include more guidance to explain the requirements for connectivity information, including:

- how it relates the financial statements about judgements, estimates, and contingent liabilities,
- how to attribute effects to financial accounts,
- how to address long time horizons for risk and financial effects for inter-related risks, and if and how to consider probability, in addition to materiality.

Fair Presentation: Question 7 (S1)

In our view, requiring an entity to consider recent pronouncements of other standard-setters results in guidance and information outside the control of the ISSB being part of the ISSB's general purpose framework. It also places onerous obligations on issuers stating compliance with the ISSB standards and assurance providers assessing an entity's compliance with the ISSB standards. We recommend that paragraph 51 be amended to state that an issuer "may consider" the noted items when identifying sustainability-related risks and opportunities, an approach consistent with paragraph 12 of IAS 8 *Accounting policies, change in accounting estimates and errors*.

Materiality: Question 8 (S1)

Definition of materiality

We understand that the definition of materiality in the Exposure Drafts is consistent with the definition in IFRS-compliant financial statements; however, a key consideration is that those statements are filed as standalone documents. In Canada, and likely other jurisdictions, most of the disclosures required by the Exposure Drafts would be located in continuous disclosure documents that are subject to the test for materiality under securities legislation. Accordingly, a central concern is the added complexity for preparers and users of financial disclosures, as well as regulators enforcing compliance with disclosure requirements, if different tests for materiality are used within the same continuous disclosure document.

We encourage the ISSB to consider developing guidance to assist issuers in assessing materiality of sustainability-related information to support consistent application of the definition of materiality.

Consistent use of terminology

The Exposure Drafts contemplate disclosure of material information relating to “significant” risks and opportunities. The term “significant” is not defined. It would be preferable to refer only to “material” risks and opportunities as the use of “significant” adds confusion and uncertainty.

Frequency of reporting: Question 9 (S1)

We generally support issuers reporting their sustainability-related disclosures at the same time as their related financial statements and for the same reporting period. This would ensure greater connectivity between sustainability-related information disclosure and the financial statements and associated management commentary.

While such connectivity should be preserved to the extent possible, we would encourage the ISSB to consider the challenges issuers may encounter in reporting GHG emissions disclosure at the same time as the rest of their annual financial reporting. Specifically, we note that in the CSA’s consultation for Proposed National Instrument 51-107, we received a significant number of comments that acknowledged this particular timing challenge for GHG emissions disclosure.

In this regard, we encourage the ISSB to consider whether its final reporting standards should explicitly provide accommodations on timing of reporting to address this issue. Such accommodations would also enable issuers of various sizes to provide explicit and unqualified statements of compliance with the ISSB’s final reporting standards.

Location of information: Question 10 (S1)

We agree that an issuer should be required to disclose information required by the IFRS Sustainability Disclosure Standards as part of its general purpose financial reporting. We also support allowing jurisdictions to determine the precise location of the sustainability-related disclosures within that reporting package.

Transition plans and carbon offsets: Question 5 (S2)

Transition plans

Commenters on Proposed National Instrument 51-107 noted that disclosure of transition plans, including how an issuer intends to deliver on any net zero and interim commitments, is decision-useful to investors in evaluating the credibility of an issuer's strategy in addressing decarbonization-related risks and opportunities, and in measuring progress towards stated targets over time. As such, we support the proposed disclosure requirements for transition plans; however, not all issuers have adopted transition plans and smaller issuers in particular may require more time to develop their transition planning. We suggest that the requirement be clarified that disclosures regarding transition plans are only required where an issuer has developed such a plan.

Carbon offsets

We support a general disclosure requirement regarding the extent to which any emissions targets rely on the use of carbon offsets and any information necessary for investors to understand the credibility and integrity of such offsets. However, we are concerned that the more detailed and prescriptive disclosure requirements proposed by the ISSB may be premature, given the voluntary carbon credit market is early in its development. The specific information necessary to understand the credibility and integrity of any given offset continues to evolve and therefore we recommend a less prescriptive, more general disclosure requirement.

Climate resilience: Question 7 (S2)

We recognize that there are benefits to scenario analysis and assessments of climate resilience. They can assist issuers with informing corporate strategy, risk management and planning and can provide investors with useful information regarding the resilience of issuers' business models to climate-related risks. The insights from scenario analysis and assessments of climate resilience can also assist investors in understanding the financial impact in different climate scenarios and inform their own risk management and portfolio diversification.

There are, however, several challenges associated with scenario analysis and assessments of climate resilience at this time. Additional guidance and reference are necessary for preparers to understand the amount of disclosure required to meet the reporting requirements under the proposed standards such as examples and guidance regarding single-point forecasts and sensitivity analysis.

Comments about the difficulties and challenges received from commenters to Proposed National Instrument 51-107 include:

- Long time horizons associated with climate change may make adapting traditional risk modelling methods that typically involve shorter time horizons challenging.
- Climate scenario requires many assumptions regarding an issuer's business and carbon intensity changes over a long time horizon.
- It can be challenging at this time to obtain high quality climate relevant data, which introduces additional uncertainty into modelling.
- Physical risks produced by climate models are approximate. More detailed bottom-up modelling would assist assessment of physical risks where asset locations are known.
- There is a lack of standardized assumptions, methodologies and timeframes, which may hinder comparability among issuers.

As such, we do not support requiring these disclosures until assessments of climate resilience are more mature and there is greater consensus around the appropriate assumptions, methodologies and timeframes for these assessments.

Greenhouse gas emissions: Question 9 (S2)

Scope 3 emissions

We recognize the importance of disclosing Scope 3 emissions as part of understanding how an issuer measures, monitors and manages its climate-related risks and opportunities, since Scope 3 emissions can represent the majority of an issuer’s lifecycle emissions throughout the value chain. However, Scope 3 emissions disclosure continues to present challenges, particularly in estimating upstream and downstream emissions. Carbon accounting is a field that continues to evolve, and the market may require additional time to build expertise around Scope 3 emissions measurement and reporting. As such, we do not support mandatory Scope 3 emissions disclosures at this time.

Greenhouse Gas Protocol Corporate Standard (GHG Protocol)

We support using the GHG Protocol to define and measure GHG emissions. In the CSA’s consultation for Proposed National Instrument 51-107, there was significant support for using the GHG Protocol as the standard for GHG emissions disclosure.

Organizational boundaries

The GHG Protocol provides that when setting organizational boundaries an issuer can select from three alternative consolidation approaches (equity share, operational control or financial control). However, we note that the industry-based disclosure requirements in Appendix B require, for a number of industries, that GHG emissions data be consolidated and disclosed according to the approach with which the issuer consolidates its financial reporting data, which is generally aligned with the financial control approach defined by the GHG Protocol. This appears to conflict with the latitude provided pursuant to the GHG Protocol for issuers to select from the three alternative consolidation approaches. Further clarification is needed regarding the consolidation approaches available to issuers under the S2.