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Enserva Member Brief
Canadian Sustainability Disclosure Standards Consultation
May 28, 2024

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Public Consultation on Canadian Sustainability Disclosure Standards (CSDS) 1 & 2

Overview

In March 2024, the Canadian Sustainability Standards Board (CSSB) published drafts of its proposed Canadian Sustainability Disclosure Standards (CSDS). These proposed standards are derived from the International Sustainability Standards Board's (ISSB) IFRS Sustainability Disclosure Standards, which establish a global baseline for companies to report on sustainability and climate-related information.

CSDS 1 contains general requirements regarding sustainability-related financial information and CSDS 2 contains climate-related disclosure requirements. For the moment, these drafts are almost identical to the standards issued by the International Sustainability Standard Board (ISSB) in June 2023, with the exception of certain additional relief to account for the Canadian context.

Once finalized, CSDA 1 and 2 will only be *voluntary* standards in Canada. However, they will provide the guidance for the Canadian regulator - Canadian Securities Administrators (CSA) - and the provincial bodies such as the Alberta Securities Commission (ASC) as they decided the mandatory rules about sustainability-related disclosures. The timing of the mandatory disclosures is not yet known.

The CSSB has opened a public consultation period until June 10, 2024 during which time the public and industry are asked for feedback about CSDS 1 and 2. The consultation specifically focuses on:

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

- Timing of reporting (paragraphs 64-69 of CSDS 1)
- Climate resilience and transition relief (paragraph 22 of CSDS 2)
- Scope 3 greenhouse gas (GHG) emissions (paragraph C4 of CSDS 2)

A more in-depth discussion of consultation topics is included below.

All consultation responses will be a matter of public record unless confidentiality is requested.

After reviewing public feedback, the CSSB aims to finalize CSDS 1 and 2 by Q4 2024, unless "major surprises" arise during the consultation.

Consultation Timeline

The outlined next steps for the CSDS are as follows:

- June 10, 2024 — Comment period ends; consultation submission deadline
- July-August 2024 — Deliberation period
- By Q4 2024 — Project complete, including Feedback Statement and Basis for Conclusions
- January 1, 2025 — Effective date (*voluntary*)

Consultation Submission

Feedback can be submitted via an online survey or by submitting a response letter (Word file) for CSDS 1 and 2. You may submit the same response to both.

- CSSB Exposure Draft - CSDS 1: Connect.FRASCanada.ca survey, online form.
- CSSB Exposure Draft – CSDS 2: Connect.FRASCanada.ca survey, online form.

You will need to make an account with FRASCanada to make a submission.

The Path Towards Mandatory Disclosure – Background Information

On June 26, 2023, the International Sustainability Standards Board (ISSB) released:

- IFRS S1 General Requirements for Disclosure of Sustainability-related Financial Information; and
- IFRS S2: Climate-related Disclosures.

On March 13, 2024, the Canadian Sustainability Standards Board (CSSB) released Canadian-specific standards based on the IFRS standards as per above:

- Exposure Draft, "CSDS 1, General Requirements for Disclosure of Sustainability-related Financial Information"; and
- Exposure Draft "CSDS 2, Climate-related Disclosures."

Key features of the proposed CSDSs

For the most part, CSDS 1 and CSDS 2 are very similar to and based on IFRS S1 and IFRS S2, respectively. However, the CSSB has proposed two modifications in accordance with its Proposed "Criteria for Modification Framework," which considers the Canadian public interest.

These modifications relate to effective dates and transition relief. The CSSB also acknowledges that specific concerns have been raised on provisions within the global standards. Consequently, a focused consultation has been launched to learn about the perspectives of stakeholders and to ensure the CSDSs are fit for purpose in Canada.

The CSSB has proposed specific amendments to IFRS and S2 as summarized below:

Amendment	Illustration
Effective date (paragraph E1 of CSDS 1 & paragraph C1 of CSDS 2)	
The proposed effective dates for CSDS 1 and CSDS 2 have been extended by one year.	The proposed standards would become voluntarily effective for annual reporting periods beginning on or after **January 1, 2025**.
Disclosures beyond climate (paragraph E5 of CSDS 1)	
The proposed transition relief for disclosures beyond climate-related risks and opportunities has been extended from one year granted by the ISSB to two years.	Assuming a calendar year end, if an entity applies the proposed standard for the first time in the reporting period beginning on **January 1, 2025**, it will be required to disclose information on all sustainability-related risks and opportunities from the reporting period beginning on **January 1, 2027**.
Comparative information (paragraph E6 of CSDS 1)	
The proposed requirements to disclose comparative information have been changed to align with the modification made to paragraph E5.	Assuming a calendar year end, if an entity applies the proposed standard for the first time in the reporting period beginning on **January 1, 2025**, and applies the relief in paragraph E5, to delay reporting about its sustainability-related risks and opportunities (other than disclosure of information on only climate-related risks and opportunities), an entity will be required to disclose comparative information on all sustainability-related risks and opportunities from the reporting period beginning on **January 1, 2028**.
Scope 3 GHG emissions (paragraph C4 of CSDS 2)	
The proposed transition relief for disclosure of Scope 3 GHG emissions has been extended from **one year granted by the ISSB to two years**.	Assuming a calendar year end, if an entity applies the proposed 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**.

Please remember that these disclosure standards are currently *voluntary* but will provide the framework for the climate- and sustainability related-disclosures as mandated by Canadian regulatory bodies (CSA and provincial regulators).

Feedback Focus Areas - Detail

The CSSB will accept comments on all aspects of the Exposure Drafts' proposals, but is particularly focused on the following:

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

- CSDS 1 proposes to adopt IFRS S1 without modifications, except for the effective date and transition relief.
    - Its primary objective is to require an entity to disclose information about its sustainability-related risks and opportunities.
    - 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 CSSB has proposed extending the one-year transition relief within IFRS S1 to two years for disclosures beyond climate-related risks and opportunities.

Timing of reporting (paragraphs 64-69 of CSDS 1)

- Aligning timing of sustainability reports with financial statements improves connectivity and ensures decision-useful information for users of general-purpose financial reports.
- Canadian respondents to the ISSB's IFRS S1 Exposure Draft expressed broad support for an integration in reporting approach but noted challenges in aligning timing of sustainability disclosures with financial statements.
    - The CSSB considered various possible amendments to the timing of reporting provisions, including deferring or deleting the alignment in timing of reporting requirement.
    - A deferral may not, however, provide enough time for preparers to fully resolve the issues, while a deletion could hinder progress in the sustainability disclosures landscape.
    - For this reason, the CSSB is seeking feedback on the timing of reporting provisions.

Climate resilience and transition relief and/or guidance (paragraph 22 of CSDS 2)

Scenario analysis is a well-established method used to develop strategic plans that contemplate a range of plausible future states. As climate-related impacts grow increasingly uncertain, scenario analysis is an effective tool to help an entity assess alternatives that may significantly alter the basis for "business as usual" and to communicate its plans for responding to the potential risks and opportunities to investors.

The CSSB has noted its support for the global baseline requirements on climate resilience, but acknowledges that:

- climate-related scenario analysis is new to many entities; and

- preparers are concerned about the potential level of resources, skills, and capacity required to prepare these disclosures.

The CSSB is seeking views on whether transition relief and/or guidance would help preparers and users in their assessment of climate resilience.

Scope 3 GHG emissions (paragraph C4 of CSDS 2)

It is widely recognized that, for many companies, Scope 3 GHG emissions make up a significant part of an entity's total GHG emissions inventory and contain important information about a company's exposure to climate-related risks and opportunities within its value chain.

Preparers have raised concerns about:

- Measurement uncertainty; and
- Process and capacity challenges to deliver disclosures at the same time as general-purpose financial reports.

The CSSB's goal is to balance these concerns with the urgent need to address climate-related risks.

- Proposed CSDS 2 provides <u>additional transitional relief</u> by <u>proposing that the entity is not required to disclose its Scope 3 GHG emissions in the first two annual reporting periods</u> in which an entity applies the standard.

Enserva Findings

Upon review of the CSSB’s proposed amendments to the IFRS Sustainability Standards and request for feedback, Enserva’s chief concerns are summarized below.

- Logistical challenges faced by small and medium-sized enterprises (SMEs) to comply with the proposed standards.
- Inherent challenges with Scope 3 reporting, which have not been adequately addressed through industry or regulatory consensus.
- Feasibility of aligning the release of sustainability reports with financial statements.
- Simultaneous effective date of CSDS 1 and CSDS 2.
- Lack of cost-benefit analysis for Canadian implementation.
- Unequal treatment of different industries resulting in a greater burden on participants in the oil and gas sector.
- Ask for absolute emissions only, as opposed to net emissions or any opportunity to demonstrate positive externalities representing a comprehensive ESG landscape.

As a whole, these concerns all contribute to significant harm on the competitiveness of Canadian companies, especially when compared to our largest trading partners who have not adopted these measures.

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1. **Logistical challenges faced by small and medium-sized enterprises (SMEs) to comply with the proposed standards.**

Canada’s energy services, supply, and manufacturing sector is comprised of companies of all sizes, from large multinational corporations to SMEs with minimal staff, all of which play a vital role it the market.

The proposed CSDS 1 and 2 pose several logistical challenges for SMEs. Firstly, resource constraints pose a significant hurdle, as SMEs often lack dedicated sustainability departments or personnel to manage compliance efforts. Limited financial resources further compound this issue, making it difficult for SMEs to invest in the necessary tools, technologies, and expertise required for comprehensive sustainability reporting. Moreover, navigating the complexity of the standards themselves can be daunting for SMEs with limited prior experience in sustainability reporting.

The need to collect, verify, and report data accurately adds another layer of logistical complexity, especially considering the diverse range of SMEs operating across various industries and the arbitrary nature of the requested disclosure information. Additionally, SMEs may face challenges in accessing relevant data from their supply chains or subcontractors, which can hinder their ability to fully disclose their impact reports.

Additional consideration needs to be given to reduce the logistical and cost burden on SMEs.

2. **Inherent challenges with Scope 3 reporting, which have not been adequately addressed through industry or regulatory consensus.**

Scope 3 sustainability reporting presents several challenges for companies seeking to assess and disclose their environmental impact. Chief among these challenges is the complexity and breadth of Scope 3 emissions, which encompass indirect emissions from sources outside a company's direct control. Gathering accurate data for these emissions given the lack of standardized methodologies for measurement and reporting is not a reasonable ask.

Overall, effectively addressing the challenges of Scope 3 sustainability reporting requires extensive collaboration among stakeholders, the development of standardized measurement approaches, and increased transparency throughout supply chains before this level of disclosure can be considered.

The CSSB's proposed transitional relief for Scope 3 GHG emissions to two years from one is not a realistic extension and the reporting of Scope 3 emissions should be removed.

3. **Feasibility of aligning the release of sustainability reports with financial statements.**

Synchronizing the releases of sustainability reporting and financial disclosure poses significant practical challenges.

Coordinating the production timelines of these separate reports adds considerable complexity, with unclear tangible benefit. This dual reporting process demands additional time, expertise, and resources, particularly for SMEs with limited dedicated sustainability personnel. Moreover, ensuring consistency and accuracy across both reports without standardized frameworks adds to the logistical burden. As a result, companies must allocate significant resources and effort to manage the production of separate sustainability reports, balancing the need for transparency with operational efficiency and financial constraints.

To ease this burden, the alignment in timing of reporting requirements should be removed.

4. **Simultaneous effective date of CSDS 1 and CSDS 2.**

The CSSB's proposed extension for disclosure beyond climate-related risks does not negate the challenge of initiating CSDS 1 and CSDS 2 concurrently. To ease of burden of the initial reports, Enserva recommends that climate reporting (CSDS 2) be implemented first, with a further one-year extension for disclosures beyond climate-related risks and opportunities (CSDS 1).

Staggering these releases will simplify the initial years of reporting, allowing for best practices to be developed, a reduced financial and personnel burden, and increases likelihood of compliance.

5. **Lack of cost-benefit analysis for Canadian implementation.**

The lack of a proper cost-benefit analysis on implementation of the proposed standards in Canada is a significant oversight by the CSSB and will be among the largest burdens placed on companies seeking to comply with the disclosure standards.

Estimates from the Australian government's cost impact assessment for disclosure standards based on the ISSB places the initial cost of compliance at $1.1 million CDN and ongoing cost at $641,000 CDN.[1] This is an unfeasible cost for most organizations and places a significant and unnecessary financial burden on those who are able to absorb this cost.

Before implementation can be considered or any deadline is imposed, a full analysis needs to be completed on the financial cost for Canadian companies to produce the intended disclosures.

6. **Unequal treatment of different industries resulting in a greater burden on participants in the oil and gas sector.**

Concerns around the fairness of the industry-based guidance from the Sustainability Accounting Standards Board, specifically the fair treatment of the hydrocarbon industry, needs to be addressed by the CSSB.

Overburdening a selection of industries and creating allowances for others goes against the core intention of creating disclosure standards and will deter compliance.

7. **Inclusion of absolute emissions only, as opposed to net emissions or any opportunity to demonstrate positive externalities representing a comprehensive ESG landscape.**

As currently written, the proposed standards only call for absolute emissions, rather than net emissions. The inclusion of only absolute emissions does not reflect nuances and offsetting measures, which are key components of the sustainability efforts of many companies, particularly those in the oil and gas sector.

Net emissions are the metric used for industry and national target because it allows for a more comprehensive picture, and the CSSB should be aligned with this standard as well.

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[1] https://oia.pmc.gov.au/sites/default/files/posts/2024/01/Impact%20Analysis_0.pdf

Enserva Member Form Letter

[Date]

Chair, Charles-Antoine St-Jean
Canadian Sustainability Standards Board (CSSB)
277 Wellington St W
Toronto, Ontario
M5V 3H2

Dear Chair St-Jean,

Subject: Feedback on CSSB Canadian Sustainability Disclosure Standards 1 & 2

On behalf of [company name], we appreciate the opportunity to provide feedback on the proposed modifications to the IFRS Sustainability Disclosure Standards as they pertain to Canada.

[Optional: brief introduction of the company and its participation in/relevance to the energy services industry in Canada. You can highlight your organization's commitment to sustainability and transparent financial reporting.]

We have carefully reviewed the proposed modifications and wish to express our concerns on several areas, all of which will add significant costs to Canadian industry participants and harm competitiveness compared to our primary trading partners.

The similarities of CSDS 1 and 2 to the original IFRS S1 and S2 demonstrate that the unique characteristics of Canada's primary industries and stakeholders were not prioritized adequately in the development of these proposed standards.

Specifically, we would like to highlight the following areas of concern, which address both the elements for which the CSSB has requested feedback, and additional issues:

- **Logistical burden**

  The proposed standards place significant logistical and cost burdens on Canadian businesses, especially for SMEs who typically lack the personnel, financial, and resource requirements to meet the standards as currently proposed. Additional consideration needs to be given around way to lessen the burden on SMEs.
- **Inherent challenges with Scope 3 reporting.**

  Given the complexity and breadth of Scope 3 reporting and the lack of standardized methodology for collection and measurement, the inclusion of Scope 3 emissions should be removed from the proposed standards or made a voluntary inclusion. Without detailed cross sectoral alignment on who tracks which emissions, there is significant risk of duplicate counting on emissions resulting in an unfair an inaccurate assessment of true emissions.
- **Feasibility of aligning the release of sustainability reports with financial statements.**

  The alignment of sustainability and financial reporting should be removed, at least in initial years, to ensure consistency and accuracy of both reports.
- **Climate Scenario Analysis**
- The benefit of Climate Scenario Analysis remains unclear, and the methodology for such analysis is still evolving. The proposed standards will put undo costs on our business and risk making us uncompetitive against other competing countries where this costly analysis is not required (United States, Mexico,

China). Climate scenario analysis can range from $100,000 to $400,000 depending on the extent of the analysis and this is simply not affordable for our business. Scenario analysis should be eliminated or voluntary.

- **Simultaneous effective date of CSDS 1 and CSDS 2.**
  The CSSB's proposed extension for disclosure beyond climate-related risks does not negate the challenge of initiating CSDS 1 and CSDS 2 concurrently. To ease this challenge, the effective date of CSDS 1 and 2 should be staggered, allowing for best practices to be developed and increase likelihood of compliance.
- **Lack of cost-benefit analysis for Canadian implementation.**
  The lack of a proper cost-benefit analysis on implementation of the proposed standards in Canada is a significant oversight by the CSSB and will be among the largest burdens placed on companies seeking to comply with the disclosure standards. A full analysis needs to be completed on the financial cost for Canadian companies to produce the intended disclosures before an implementation can be set.
- **Unequal treatment of industries.**
  Overburdening a selection of industries and creating allowances for others goes against the core intention of creating disclosure standards and will deter compliance. Concerns around the fairness of the industry-based guidance from the Sustainability Accounting Standards Board, specifically the fair treatment of the hydrocarbon industry, needs to be addressed by the CSSB.
- **Requirement of absolute emissions versus net emissions.**
  The inclusion of only absolute emissions does not reflect nuances and offsetting measures, which are key components of the sustainability efforts of many companies, particularly those in the oil and gas sector. Net emissions are the metric used for industry and national target because it allows for a more comprehensive picture, and the CSSB should be aligned with this standard as well.
- **Requirement for Permanent Safe Harbour**
  - Currently, measurement and methodology for emissions data and scenario analysis are limited and variable. This often means that business owners will be required to use estimates. In order to limit potential liability and litigation, Canada should provide safe harbour for statements concerning emissions estimates, climate scenario analysis and transition plans.

Should you wish for further clarification on any of the points highlighted above or other areas relating to [your company]'s work around sustainability reporting, please contact me at your convenience.

In conclusion, we believe that the standards proposed by the CSSB would unfairly burden different industries, place an unfeasible cost on companies seeking to comply, and would tangibly damage Canadian industries' competitiveness compares to our closest trading partners.

We urge the CSSB to fully address these concerns before moving forward with the proposed implementation of CSDS 1 and 2. This delay and further work to consult with industry, leading to significant amendments to the proposals, will be critical to getting the desired compliance for these standards.

Thank you for considering our feedback on this important matter.

[Optional: closing comment on company's commitment to Canadian operations.]

Sincerely,

[Your Name]
[Your Position]
[Your Contact Information]