Millani’s 7th Annual ESG Disclosure Study: A Canadian Perspective
October 11th, 2023

A study of the 2022 ESG disclosures of Canadian S&P/TSX Composite Index constituents

Since 2017, Millani has been conducting an annual review to assess and understand the ESG (environmental, social, and governance) reporting landscape in Canada, identifying trends, and providing insights and context which complement our various thought leadership publications. A thorough analysis was conducted on the latest ESG disclosures from the 227 constituents of the S&P/TSX Composite Index. This year’s edition provides a lens on Canadian issuers’ preparedness to report to the two newly issued global International Sustainability Standards Board’s (ISSB) Standards, IFRS S1 and IFRS S2.

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Key Takeaways

In examining these reports in detail, below are some key takeaways:

Preparedness of issuers to IFRS S1 and S2

- **Canadian issuers will need to increase disclosure regarding material sustainability-related risks.** S&P/TSX Composite Index constituents increasingly embrace ISSB’s foundational frameworks like SASB and TCFD for the disclosure of sustainability-related risks and opportunities. Despite 86% of issuers conducting materiality assessments to identify these factors, only 34% of them disclose related metrics, as required by IFRS S1.

- **A limited number of issuers disclose capital deployment towards climate transition plans and objectives.** While Canadian investors aim to support issuers in their shift toward a lower-carbon economy, fewer than 10% of Canadian issuers disclose capital deployment towards the realization of transition plans and climate-related goals.

- **To meet IFRS S2’s climate scenario analysis expectations, issuers are encouraged to enhance their disclosures.** While 53% of Canadian issuers that published an ESG report undertake climate scenario analysis at some level, IFRS S2 expects issuers to provide more comprehensive information about inputs, assumptions, time horizons, and findings of scenario analyses—a level of expected transparency which very few issuers presently meet.

The report also explores and highlights other trends and observations, some of which are listed below:

Additional observations

- **Millani’s 7th Annual ESG Disclosure Study observed a delay in reporting.** As of August 31, 2023, Millani’s research suggests a delay in ESG report publication, with only 71% of constituents having done so, down from 80% in 2022. Some potential causes include lengthier assurance procedures or increased reporting costs in an inflationary environment.

- **Canadian issuers will need to walk a fine line between alignment with the SDGs and “SDG-washing”.** Alignment of Canadian issuers with the UN Sustainable Development Goals (SDGs) has increased to 65% but concerns of “SDG-washing” are rising, with only 4% disclosing both positive and negative contributions when referring to the SDGs.

- **Few issuers produce standalone modern slavery or human rights statements ahead of Bill S-211.** A limited number of Canadian reporting companies currently disclose standalone modern slavery or human rights statements, indicating significant progress required in anticipation of Bill S-211’s reporting obligations.

- **Double materiality assessments have arrived in Canada.** Market best practices and regulatory considerations have driven 19% of Canadian issuers conducting materiality assessments to adopt a double materiality perspective, thereby meeting the sustainability disclosure needs of various investor groups and other stakeholders effectively.

This report explores these takeaways and also focuses on factors such as the utilization of reporting frameworks, the extent of climate-related disclosures, and the extent of disclosures concerning ESG issues of importance to investors based on Millani’s latest Semi-Annual ESG Sentiment Study of Canadian Institutional Investors, such as equity, diversity and inclusion (EDI), human capital, human rights, cybersecurity, and biodiversity.

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1. The final list of S&P/TSX Composite Index constituents was retrieved on August 31, 2023.
2. Unless otherwise specified, all statistics and data presented in Millani’s report are based on information provided by the 162 (out of 227) S&P/TSX Composite Index constituents who had an ESG report published in 2023 or covering data from the 2022 reporting period. In this year’s study, report nomenclature varied, with titles including “Sustainability” (46%), “ESG” (40%), “Corporate Social Responsibility” (4%). In all other sections of this paper, the term “ESG report” refers to all reports, regardless of the publication’s title.
ESG disclosures: A Canadian perspective within a changing global context

In response to the widespread market demand for a standardized understanding of how sustainability factors affect companies’ future performance, the ISSB issued its inaugural Standards in June 2023, marking an important milestone on the road to achieving a global baseline for financially material sustainability-related disclosures. While IFRS S1 provides a set of disclosure requirements designed to enable companies to communicate to investors about the sustainability-related risks and opportunities they face over the short, medium, and long term, IFRS S2 hones in on the topic of climate and establishes how companies should disclose climate-related information.

Following the issuance of IFRS S1 and IFRS S2, the International Organization of Securities Commissions (IOSCO) announced its endorsement of the Standards and will now, alongside the ISSB, collaborate with jurisdictions and issuers around the globe to ensure their adoption and facilitate their implementation. In Canada, the issuance of the Standards was shortly followed by welcoming statements released by the Canadian Securities Administrators (CSA) and the newly operational Canadian Sustainability Standards Board (CSSB). Both groups communicated their intention to collaborate and conduct further consultations to adopt disclosure standards based on ISSB Standards, while considering possible modifications deemed as necessary and appropriate for a Canadian context. Canadian issuers can expect the CSA and the CSSB to provide market updates with regards to the adoption of IFRS S1 and S2 in coming months.

In Europe, ESG disclosure is heading in a slightly different direction. In fact, in July 2023, the European Commission adopted the European Sustainability Reporting Standards (ESRS), developed by the European Financial Reporting Advisory Group (EFRAG). These standards are for use by all companies subject to the Corporate Sustainability Reporting Directive (CSRD), the EU legislation which replaced the Non-Financial Reporting Directive (NFRD) in December 2022. Although the CSRD is EU-based and stands to affect nearly 50,000 EU companies, it is currently estimated that at least 10,000 companies outside the EU – including many based in Canada – will be affected as well.

The first reporting cycle is expected to cover the 2024 financial year and reports are scheduled to be published as soon as January 1, 2025. Key features of the ESRS include the undertaking of double materiality assessments to determine whether sustainability-related topics are material to a company from an impact or financial materiality perspective (or both), and disclosures on material impacts, risks, and opportunities across a list of ESG topics. CSRD-mandated reporting will require many datapoints that emanate from other EU legislations, thus supporting investors who must meet disclosure requirements under the EU’s Sustainable Finance Disclosure Regulation (SFDR). Limited assurance of disclosures starting in the first year of reporting is also included in the ESRS.

Although there are fundamental differences between these two global standards, Canadian issuers might find comfort in the ongoing efforts by the ESRS and ISSB to achieve a degree of alignment and to provide guidance for interoperability. The objective being to minimize complexity and reporting duplication for entities needing to adhere to both standards.

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4. IOSCO endorses the ISSB’s sustainability-related financial disclosures standards, IOSCO, July 2023.
7. At Least 10,000 foreign companies to be hit by EU sustainability rules, WSJ, April 2023.
ESG assurance and reporting delays

As of August 31, 2023, Millani’s research indicates what appears to be a delay in ESG reports, with only 71% of S&P/TSX Composite Index constituents having published an ESG report, versus 80% for the same period in 2022 and 71% in 2021. This prompts the question whether the delay could be attributed to an increase in time-consuming assurance procedures, or the high costs associated with reporting in inflationary times.

Framework evolution

Since 2019, there has been a noticeable rise in alignment with reporting frameworks such as the Sustainability Accounting Standards Board (SASB), the Global Reporting Initiative (GRI), the Task Force on Climate-related Financial Disclosures (TCFD), and the UN Sustainable Development Goals (SDGs). Through the analysis of Millani’s findings spanning from 2019 to 2022 data, we discern an upsurge in the adoption of the TCFD, SASB, and SDG frameworks, witnessing a growth of 113%, 106%, and 81%, respectively. In contrast, the prevalence of the GRI framework, already substantial in our 2019 dataset relative to other frameworks, has remained relatively consistent among Canadian issuers during this period.

Our research observes a significant increase in companies publicly disclosing an assurance statement for their ESG disclosures, with 46% of ESG reports including one versus 31% in 2022. However, the practice of achieving “reasonable assurance” remains uncommon, with only 9% of assurance statements covering selected data at the reasonable level.

Sustainability Accounting Standards Board (SASB)

The recently issued IFRS S1 requires companies to “disclose material information about the sustainability-related risks and opportunities that could reasonably be expected to affect the entity’s prospects”. Moreover, ISSB requires issuers to consider the SASB Standards to identify sustainability-related risks, opportunities, and related information, in the absence of industry-specific IFRS Sustainability Disclosure Standards.
While no reports assessed aligned with the ISSB Standards given their recent issuance and the timeline of this study, the level of alignment of the S&P/TSX Composite Index constituents’ reports with SASB remains at a similar level to last year, at 74%. The framework’s rate of adoption since 2019 has been notable, which may be explained by its industry-based approach to financial materiality, thereby addressing investors’ needs to distinguish the most important sustainability topics for investment decisions.

Global Reporting Initiative (GRI)

Millani’s research observed a slight increase of issuers’ reports aligning with GRI, at 63%. With the CSRD coming into effect in 2025, alignment with GRI may continue to increase, as the framework constitutes a basis for the assessment of impacts under ESRS, which are, as much as possible, fully aligned with the GRI Standards. Of the Canadian companies affected by the CSRD, those aligning to the GRI framework may have a head start on reporting as they may already be equipped for the ESRS transition under the CSRD’s scope and may be able to capitalize on their established reporting methods. For instance, where the ESRS does not comprehensively address certain areas, GRI reporting can serve as a valuable framework for bridging gaps and meeting disclosure requirements.

Sustainable Development Goals (SDGs)

Alignment of issuers with the UN Sustainable Development Goals (SDGs) further increased, rising from 61% to 65% between 2021 and 2022. However, alongside this progress, concerns regarding “SDG-washing” are on the rise. In fact, a substantial portion of companies referring to the SDGs in their reports (56%) only highlight their positive contributions to the goals, while just a small percentage (4%) disclose both positive and negative impacts. Furthermore, currently 15% of these companies establish connections with specific SDG indicators. This phenomenon is in line with recent academic findings which suggest that companies tend to selectively showcase the SDGs that align with their interests.

Moreover, the United Nations’ Principles for Responsible Investment (UNPRI) framework is increasingly evaluating responsible investors based on their consideration of sustainability outcomes in investment decisions. Notably, half of PRI signatories reported using the SDGs to assess and contextualize their sustainability efforts in 2022. As a result, it is foreseeable that investors may start to demand issuers to defend their contributions to the SDGs. To address this risk, various standards, certifications, and frameworks are under development. Namely, Social Value Canada (SVC), Digital Governance Standards Institute (DGSI) and the Canadian Lenders Association (CLA) developed the

“Technical Specification for Impact Statements for profit-oriented entities”, which was recently issued in Canada, with the aim of enabling companies to demonstrate their alignment with the SDGs in a meaningful and comparable manner.

**Figure 5**
**Disclosure of performance against the SDGs in ESG reporting**

<table>
<thead>
<tr>
<th>Positive contributions only</th>
<th>No mention of the SDGs</th>
<th>Mention of the SDGs only</th>
<th>Link to specific SDG indicators</th>
<th>Positive and negative contributions</th>
</tr>
</thead>
<tbody>
<tr>
<td>36%</td>
<td>35%</td>
<td>16%</td>
<td>10%</td>
<td>2%</td>
</tr>
</tbody>
</table>

Source: Millani, 2023

**Taskforce on Climate-Related Financial Disclosures (TCFD)**

The TCFD framework has been instrumental in shaping the ISSB Standards, which have embraced its effective reporting architecture consisting of four pillars: Governance, Strategy, Risk Management, and Metrics and Targets. The ISSB Standards go beyond the frameworks’ 11 recommendations and climate-related disclosures, however, by extending disclosure requirements to broader sustainability-related risks and opportunities. Among the S&P/TSX Composite Index constituents with an ESG report, 64% adopted the TCFD recommendations for their climate disclosures, representing an increase of 113% since the TCFD was implemented in 2019.

**Figure 6**
**64% of ESG reports align to the TCFD**

The Financials sector is the most advanced, with 86% of ESG reports aligned with some of the TCFD’s recommendations and 36% issuing a standalone TCFD report. The Infrastructure and Extractive & Minerals Processing sectors follow with 77% and 70% of ESG reports aligned with selected TCFD recommendations, respectively.

Shortly after the ISSB Standards were released, the Financial Stability Board requested that the IFRS Foundation assume the responsibility of overseeing companies’ TCFD climate-related disclosures beginning in 2024. By ensuring that issuers do not need to report to both IFRS S2 and TCFD, this shift in responsibilities represents a noteworthy milestone in the ongoing consolidation of sustainability reporting standards and managing reporting cost and resources.

Alignment with ISSB

Location and timing of disclosures

The ISSB Standards have been designed to ensure that companies present financially material sustainability-related information in conjunction with their financial statements. IFRS S1 requires the integration of sustainability-related financial information within general-purpose financial reports. The exact location for these disclosures is not prescribed by the Standard, but it suggests that they may be included in a company’s management commentary, which might be referred to as a ‘management report’, ‘management’s discussion and analysis’, ‘operating and financial review’, ‘integrated report’, or ‘strategic report’. IFRS S1 also permits an entity to cross-reference between reports to provide sustainability-related financial disclosures, as long as the information remains available on the same terms and at the same time as all financial disclosure and other sustainability-related financial disclosures, with precise indication of the location of that information.

Our research found that less than 3% of report issuers currently disclose sustainability-related information through integrated reports. While this number is comparable to last year’s findings, the arrival of IFRS S1 and S2 could stimulate a rise in integrated reporting practices. Among Canadian issuers, Millani observed that 86% conducted materiality assessments to identify sustainability-related risks and opportunities, yet only 34% of them disclosed metrics for each, as mandated by IFRS S1. Regarding the timing of disclosures, ISSB Standards expect issuers’ sustainability-related disclosures to match their fiscal year reporting period, a requirement met by 96% of ESG reporters.

Climate-related disclosures

This year’s analysis has a particular focus on the climate-related disclosures of Canadian issuers and their alignment with the issued ISSB Standard IFRS S2. With regards to climate scenario analysis, the standard requires companies to, at a minimum, undertake a qualitative scenario analysis if a quantitative approach is not feasible. Millani’s research indicates that 53% of Canadian issuers that published an ESG report undertake climate scenario analysis at some level. While quantitative analysis occasionally takes place, most disclosures remain qualitative in nature. The granularity of climate scenario and risk management disclosures exhibited significant variance, with some entities outlining risks or opportunities at a high-level while others provide more comprehensive insights into their strategic responses. Particularly noteworthy is the Financials sector’s advanced progress in climate scenario analysis, with 73% of issuers undertaking the exercise.

Despite this, 29% of companies disclosing on their climate scenario analysis omit mentioning the sources of climate scenarios used. The scenarios introduced by the Intergovernmental Panel on Climate Change (IPCC), such as the Representative Concentration Pathways and the Shared Socioeconomic Pathways, were most frequently used by Canadian issuers. We also observed that in some instances, issuers are considering different climate scenario sources for assessing climate-related transition risks versus...
physical risks. Recent concerns surrounding the credibility of climate scenarios have surfaced, prompting the ISSB to request issuers to provide more comprehensive information about inputs, time horizons, and assumptions made in scenario analysis when reporting to S2 – a level of transparency which very few issuers presently meet.16

Following the TCFD’s structure, IFRS S2 also mandates disclosure of an entity’s transition and physical climate-related risks and opportunities, disclosed by 62% and 59% of issuers that published a report. Among other key disclosure requirements within the Standard, the disclosure of an entity’s transition plan, capital deployment towards climate-related risks and opportunities, and utilization of carbon offsets towards the achievement of its climate targets are all expected.

Millani’s latest Semi-Annual ESG Sentiment Study of Canadian Institutional Investors, which included interviews with 40 asset owners and managers representing over CA $5.8 trillion in assets under management, indicated that climate remains the top focus area for investors, additionally expressing that there is a hunger to deploy capital to support issuers’ transition plans. The key will be for issuers to have a transition plan, a credible demonstration on how capital expenditures and operating expenditures align to that plan, and regular disclosures. Our research found that less than 10% of issuers with an ESG report disclosed capital deployment towards climate-related risks and opportunities, which is part of IFRS S2’s provisions. As such, if IFRS S2 is adopted in Canada, issuers will need to consider capital deployment into their climate strategy going forward.

While offsets may have a role to play in the transition to a lower-carbon economy, they should not be the center piece of an entity’s decarbonization strategy, particularly considering recent concerns over offset quality and reliability.17 Millani’s research shows that 46% of reporting issuers discuss their use of offsets for climate goals. Issuers affected by IFRS S2 will need to provide further information surrounding their use to enhance credibility and integrity considerations among investors. With the introduction of IFRS S1 and S2, investors will also gain clearer insights into companies’ dedication to sustainability targets, as these standards mandate disclosure on the consideration of sustainability and climate-related factors in executive compensation. Our research found that 67% of firms currently have ESG-linked components in executive remuneration.

While granting a one-year relief period for Scope 3 emissions reporting, ISSB urges companies to disclose their Scope 1, 2, and 3 emissions and to set reduction targets. Our research reveals a significant compliance rate among Canadian issuers, with 93% disclosing Scope 1 and 2 emissions, and 69% of those issuers establishing related targets. Disclosure of Scope 3 emissions has also risen to 63% among 2022 ESG reports, a 29% increase from the previous period. Additionally, among companies communicating Scope 3 emissions, an increasing proportion are now implementing corresponding reduction targets, with 41% of them doing so.

These are some of the several pivotal aspects to consider to align with the ISSB’s comprehensive sustainability-related and climate-related disclosures. They underscore the path that lies ahead for Canadian issuers as they prepare for the potential implementation of disclosure mandates by the CSA, and, for dual-listed companies, the US Securities and Exchange Commission (SEC), which are grounded in the guidelines set forth by the ISSB.

### Disclosure of ESG topics

With S1 and S2 released, the ISSB has recently launched a consultation to understand where market participants believe it should focus next. Of Canadian investors interviewed in Millani’s latest Semi-Annual Canadian Institutional Investor ESG Sentiment Study, 37% suggested that biodiversity & ecosystems services should be the ISSB’s next top priority. This topic was followed by human capital at 24%, the integration with the International Accounting Standards Board (IASB) at 21%, and human rights at 18%. Millani’s research focused on some of these areas, and we share our findings below.


17. *We must fundamentally rethink “net-zero” climate plans: Here are six ways*, MIT Technology Review, August 2022; *More than 90% of rainforest carbon offsets by biggest certifier are worthless analysis shows*, The Guardian, January 2023.

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**Figure 8**

<table>
<thead>
<tr>
<th>How many companies have</th>
<th>How many companies have</th>
</tr>
</thead>
<tbody>
<tr>
<td>some kind of ESG-linked</td>
<td>some kind of climate-linked</td>
</tr>
<tr>
<td>executive compensation?</td>
<td>executive compensation?</td>
</tr>
<tr>
<td>S&amp;P/TSX</td>
<td>S&amp;P/TSX</td>
</tr>
<tr>
<td>2021 47%</td>
<td>2021 27%</td>
</tr>
<tr>
<td>2022 67%</td>
<td>2022 27%</td>
</tr>
</tbody>
</table>

Source: Millani, 2023
Equity, Diversity, Inclusion

In April 2023, the CSA put forth a proposition to revise the disclosure framework of the “comply or explain” principle pertaining to diversity within the boards of directors and executive officer roles of publicly traded Canadian companies. Two approaches are being considered under this proposal. The first approach involves mandatory reporting on board and executive diversity for five groups: women (as currently required), along with Indigenous people, racial minorities, individuals with disabilities, and 2SLGBTQI+ individuals. The second approach focuses on companies reporting their diversity policies and targets, maintaining the requirement for disclosing the representation of women specifically. We found that 55% of companies disclosing an ESG report already disclose diversity data for underrepresented groups considered by the CSA’s proposal. This may be an indicator of the market’s readiness for eventual compliance, demonstrating that the practice is gaining momentum. With regards to gender target setting at the board level, our research indicates that the practice has become mainstream, with 67% of reporters doing so.

Human capital

Following a consultation on the information needs of investors, human capital was identified by the ISSB as one of four potential priorities for its two-year work plan.18 Meanwhile, the US SEC has communicated plans of a human capital management disclosure proposal before year-end. With changing demographics and labour shortages over the past few years, investors are assessing how issuers are managing these risks and opportunities, and if they are setting targets and disclosing relevant performance data. Millani’s research indicates that 61% of ESG report issuers disclose employee turnover, and disclosure of employee training was found in 84% of reports, up 15 percentage points versus last year.

Human rights and Bill S-211

On May 3, 2023, the Canadian Parliament passed Bill S-211, An Act to enact the Fighting Against Forced Labour and Child Labour in Supply Chains Act and to amend the Customs Tariff. Businesses that meet certain thresholds, including all Canadian listed companies, will be required to publicly disclose board-approved, public reports on measures they have taken to identify, address and prevent forced labour, prison labour and child labour in their supply chains. The first report will be required to be filed on or before May 31, 2024.

Millani’s research found that 33% of reporting companies disclosed a standalone modern slavery or human right statement covering at least three of the four following components: Modern slavery or human rights risk assessments, remediation measures, monitoring, and whistleblower procedures. Most of these statements were issued by companies needing to respond to the U.K. and Australia Modern Slavery Acts, which do not meet the same requirements of Bill S-211. Currently, 40% of Canadian issuers have developed a standalone human rights policy, the majority being aligned to either the United Nations’ Guiding Principles on Business and Human Rights or the International Labour Organization’s Declaration on Fundamental Principles and Rights at Work.

In preparation for Bill S-211 and as the ISSB considers human rights as a potential priority for the upcoming years, companies will need to assess supply chains, conduct human rights due diligence to identify forced and child labor risks, develop policies, training, and supplier protocols, and implement monitoring and remediation processes for compliance.

Biodiversity

The UN Biodiversity Conference (COP) 15, which took place in Montreal in December 2022, played a significant role in prompting increased focus from both issuers and investors towards biodiversity and conservation. It is increasingly acknowledged that a significant portion of the world’s economic output is closely linked to nature, with recent reports indicating that more than half of the global GDP is moderately or highly reliant on nature and its associated services, therefore exposing it to nature-related risks.19

The Taskforce on Nature-related Financial Disclosures (TNFD) is a global, market-led initiative aiming to develop a risk management and disclosure framework for organisations to report and act on nature-related dependencies, impacts, risks, and opportunities. On March 28th, the TNFD unveiled the fourth and last beta version of its preliminary risk management and disclosure framework prior to its official launch in September 2023. Millani’s investigation found that 14% of ESG reports mentioned the TNFD framework, without aligning nature-related disclosures with the framework’s draft. This finding emphasizes the journey ahead, as businesses prepare for the final version of the framework. Additionally, our research found that among 2022 ESG reports, 47% dedicated a section to biodiversity, 34% disclosed biodiversity metrics, and 10% mentioned biodiversity targets. The Extractives & Minerals Processing sector led the way with 81% of ESG reports dedicating a section to biodiversity.

18. ISSB Consultation on Agenda Priorities, IFRS, May 2023.
As investor focus on biodiversity is increasing, we are observing a disconnect between investor needs and corporate disclosures. In the absence of final guidance, proactive preparation has been key. With the arrival of the TNFD framework, organisations can now refine their process of understanding their biodiversity-linked risks and opportunities and how the guidelines apply to their organisation.

**Cybersecurity**

In a recent report, the Canadian Centre for Cyber Security (the Cyber Center) warns that increased cyber-attacks targeting critical infrastructure and high-value businesses will threaten Canada’s economy and national security over the next two years. In June 2023, Canada’s leading insurance provider, Sun Life, was indirectly attacked, resulting in the public disclosure of some Sun Life’s U.S. customers’ information. Even if the Cyber Center reported 70,878 known incidents of online fraud in Canada in 2022, this number is likely not an accurate reflection of all incidents as approximately 95% of Canadian organizations targeted by cyber attacks do not notify the authorities. Millani’s seventh semi-annual ISS study shows that while many investors deem cybersecurity a material concern for most companies, they generally assume that issuers are adequately addressing this issue. However, Millani found that 49% of issuers disclosing an ESG report dedicate a section to cybersecurity, and less than a third disclose cybersecurity-related metrics, which primarily include training hours and cybersecurity breaches experienced during the latest reporting period.

In July 2023, the SEC introduced amendments regarding cybersecurity disclosure requirements for issuers, aiming to improve transparency in handling cybersecurity risks and incidents. Key points include prompt disclosure of material cybersecurity incidents in Form 8-K, periodic descriptions of risk assessment and management processes, discussion of impact on business strategy and financials, and board and management oversight of cybersecurity.

**Double materiality assessments**

Although most of the attention in Canada with regards to ESG disclosures is currently being allocated to the adoption of IFRS S1 and S2, it is worth noting that many Canadian issuers will soon be mandated by the European Commission to conform to the CSRD and its stipulations. One key distinction between the ISSB Standards and the ESRS revolves around the approach companies must take to identify their sustainability-related material issues. The ISSB focuses on companies identifying sustainability-related risks and opportunities solely through a financial materiality lens, while the ESRS requires companies to assess which sustainability-related topics are material based on either impact, financial materiality, or both perspectives – correspondingly referred to as double materiality assessments.

**An emerging practice in Canada**

Millani’s research findings reveal a higher prevalence of double materiality assessments in Canada than anticipated, with approximately 19% of materiality assessments now falling into this category. Among the 26 Canadian issuers who conducted double materiality assessments for their most recent reports, 54% had already adopted this practice in their previous ESG report.

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20. *Cybercriminals in Russia and Iran will threaten Canada’s security and economic prosperity, say intelligence agency and RCMP*, The Globe and Mail, August 2023.
22. *Cybercriminals in Russia and Iran will threaten Canada’s security and economic prosperity, say intelligence agency and RCMP*, The Globe and Mail, August 2023.
Some issuers explicitly state their double materiality assessments, while others do not. This discrepancy may arise from market confusion, uncertainty surrounding internationally recognized frameworks and regulations, apprehension of potential pushback, or competitive considerations.

Among the early movers embracing double materiality assessments, the Extractives sector stands out, accounting for approximately half of all instances of this approach. This may be attributed to the fact that extractive companies have long recognized the significant impacts their operations have on communities and the environment and the necessity of maintaining a social license to operate. However, it is important to note that double materiality assessments are not exclusive to extractive companies – they are gradually gaining traction in other sectors as well.

The benefits of double materiality assessments

Although double materiality assessments are becoming a recognized best practice and will be required for companies falling under the CSRD’s scope, they are not required for all Canadian issuers. However, this approach to materiality is becoming market best practice and there are several potential benefits for undertaking this exercise, some of which are listed below:

- Double materiality assessments may be more effective in monitoring and proactively managing a company’s emerging sustainability-related risks and opportunities. In practice, materiality is a dynamic concept, where a company’s environmental impact that might not hold financial significance today can become significant over the medium to long term. For this reason, the GRI suggests that “robust identification of material impacts of an organisation must be the starting point to determining sustainable development risks and impacts on financial statements”.

- Undertaking double materiality assessments may enable issuers to effectively monitor emerging ESG trends, including shifts in investment streams, and identify new business opportunities.

- Double materiality assessments require extended stakeholder engagement to comprehensively understand which issues are material while enabling issuers to define an ESG narrative that is appropriate for different stakeholder groups. Additionally, the recognition of the interplay between inward and outward impacts enables companies to better align their ESG narrative with their strategy.

- The implementation of double materiality may also help issuers mitigate reputational risk and help them respond to stakeholder pressures for greater corporate transparency, as investors are increasingly questioned about the impacts and sustainability outcomes of their investments.

Future of reporting

Proactively embrace the ISSB’s four prospective priorities

Canadian issuers would benefit from taking a proactive approach to engaging with the four prospective priorities outlined by the ISSB, which may encompass biodiversity & ecosystem services, human capital, human rights, and reporting integration. By dedicating attention to these areas, Canadian corporations can
work on meeting the rising demands of investors, bettering manage risks and opportunities, securing a competitive advantage, and aligning with eventual forthcoming regulations.

**Will Canada adopt only financial materiality?**

While it remains uncertain whether the ISSB Standards will be officially adopted in Canada, there are significant indications of support and involvement from various key Canadian market players since their issuance. For instance, Montreal hosts the ISSB’s second main office, underlining the country’s connection to the initiative. Key Canadian organizations, including CPA Canada and some of the country’s largest pension funds, have already voiced their backing for the adoption of the Standards.24 Earlier this year, OSFI released its inaugural climate-related framework, Guideline B-15: Climate Risk Management, outlining expectations for climate risk management and disclosure for federally regulated financial institutions.25 OSFI has further signaled its intention to revising the Guideline to harmonize it with the IFRS S2 Standards upon its release.26 Hence, Canadian issuers can expect that both the CSA and the CSSB will soon align their disclosure requirements with the ISSB Standards, a direction indicated by their supportive statements issued in July of this year, solidifying ISSB as the primary Standards for Canadian reporters.

**Should Canadian issuers start embracing double materiality?**

Despite indications suggesting the adoption of disclosure requirements aligned with the ISSB Standards in Canada, which currently focus on financial materiality, we are nevertheless witnessing a prominent shift in the market towards double materiality. As nearly 15% of issuers that engage in double materiality assessments specifically mention the CSRD, we understand that this evolution is being propelled by both preparations for EU CSRD compliance and the influential leadership of Canadian sustainability disclosure pioneers.

Canadian issuers have already gained familiarity with foundational sustainability reporting frameworks like SASB and GRI which serve as foundations for ESRS. This familiarity may facilitate the shift to ESRS disclosure requirements, which also present significant alignment with requirements for companies adhering to the ISSB Standards. Canadian issuers are encouraged to approach the adoption of double materiality and ESRS disclosures with confidence and strategic intent.

In the absence of official guidance from the European Commission on double materiality assessments, its technical advisor, EFRAG, has issued draft implementation guidance for such assessments under the ESRS. This draft guidance serves as a valuable initial resource and proactive framework for companies seeking alignment with forthcoming official guidance.

**Tailoring sustainability disclosures**

The emergence of new global sustainability standards has placed Canadian issuers at a critical juncture regarding their sustainability reporting practices. While Canadian issuers with listings in the EU and with a workforce exceeding 500 employees will be mandated to initiate reporting under the CSRD by 2025, most Canadian issuers remain exempt from mandatory reporting set by either the ISSB or CSRD for now. Consequently, the approach to sustainability-related disclosures continues to be a matter of strategic choice for companies. It is essential to recognize that a uniform approach to sustainability reporting is neither practical nor advisable. Instead, each company must meticulously deliberate its path forward, considering its unique circumstances and readiness. Elements such as a company’s existing operational context, economic activities, stakeholder relationships and expectations, and available resources all play a significant role in shaping a company’s chosen method to sustainability reporting.

**Study methodology**

This study incorporates all reports released in 2023 or covering reporting data for the year 2022. The final list of the 227 S&P/TSX Composite Index constituents was extracted on August 31st, 2023, including market capitalization value. Millani’s analysis took place in between June and August 2023, therefore the analysis is based on all ESG reports released up until August 31st, 2023. Corporations were categorized according to their SASB Sustainability Industry Classification System (SICS) sector. Millani inspected each ESG report and classified a metric, ISSB as the primary Standards for Canadian reporters.

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24. CEOs of leading Canadian pension plan investment managers support inaugural International Sustainability Standards Board (ISSB) Standards. CPP Investments, June 2023.
About Millani

For the past 15 years, Millani has become the partner of choice for institutional investors. By providing advisory services on implementing material ESG issues into investment strategies and decision-making processes, Millani helps reduce risks, increase returns and create value. Millani also regularly develops leading thought leadership pieces on investor and disclosure trends. The firm leverages this expertise and experience to help corporations, both public and private, create strategies, engage with stakeholders and strengthen their disclosures, supporting the organizations in their access to capital and optimization of market value.

For more information, contact us at info@millani.ca or visit our website www.millani.ca.