EMBRACING DOUBLE MATERIALITY: THE KEY FOR CORPORATE DISCLOSURES IN CANADA

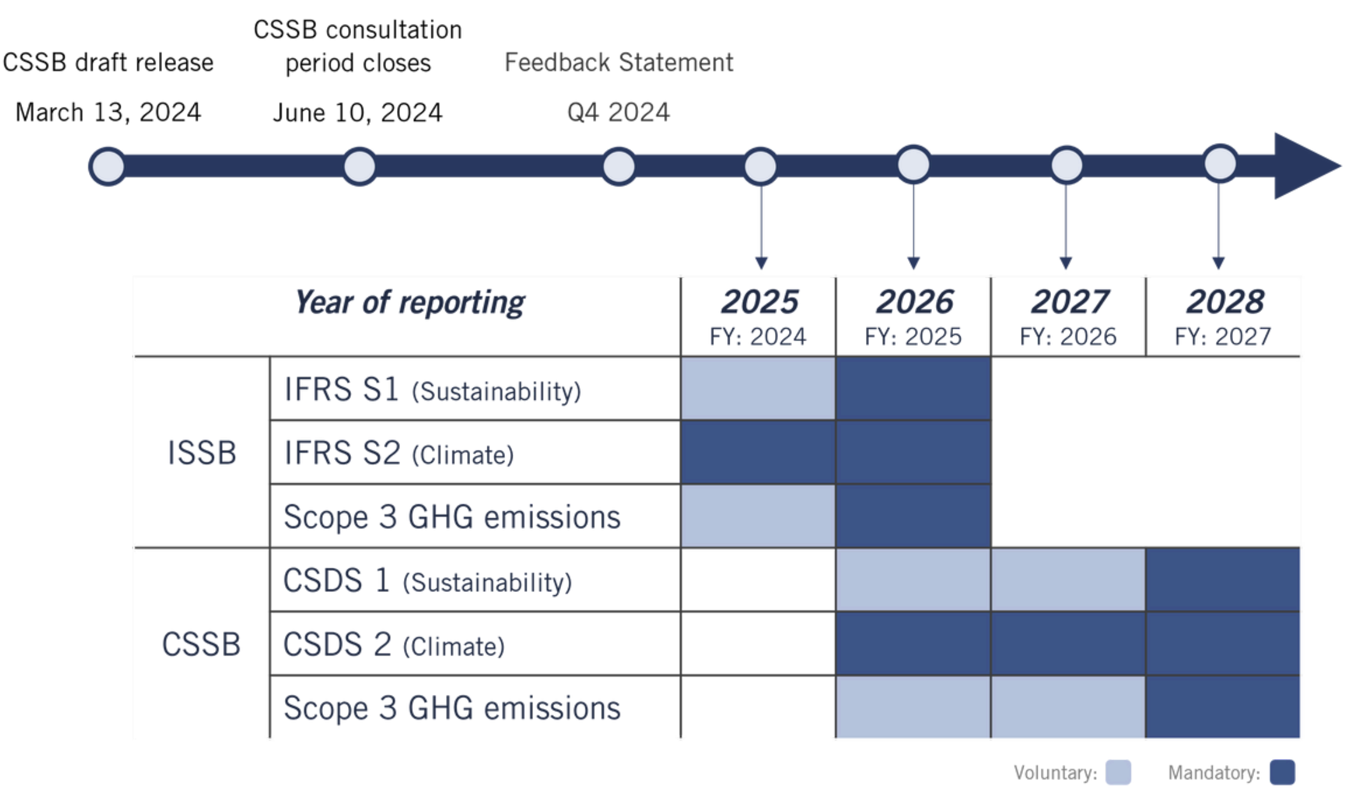
Millani

Towards Canadian sustainability disclosure standards

On March 13th, 2024, the Canadian Sustainability Standards Board (CSSB) released exposure drafts for the first Canadian sustainability disclosure standards (CSDS 1 and CSDS 2)[1], marking a significant step towards aligning Canadian corporate disclosures with the International Financial Reporting Standards (IFRS S1 and S2), developed by the International Sustainability Standards Board (ISSB). With some modifications to IFRS S1 and S2, CSDS 1 and CSDS 2 push out the effective dates for companies disclosing in Canada. Feedback from stakeholders is being solicited until June 10, 2024, and the standards are proposed to become voluntarily effective for annual reporting periods beginning on or after January 1, 2025.

The proposed differences with IFRS S1 and S2 are reflected in the table below:

Proposed implementation timelines for IFRS S1 and S2 versus CSDS 1 and 2



Source: FRAS Canada, In Brief – A plain and simple overview of the recently issued Exposure Drafts, "Canadian Sustainability Disclosure Standard (CSDS) 1, General Requirements for Disclosure of Sustainability-related Financial Information" and "CSDS 2, Climate-related Disclosures", March 2024

1. In Brief – A plain and simple overview of the recently issued Exposure Drafts, "Canadian Sustainability Disclosure Standard (CSDS) 1, General Requirements for Disclosure of Sustainability-related Financial Information" and "CSDS 2, Climate-related Disclosures", Financial Reporting and Assurance Standards Canada (FRAS), March 2024.

Other disclosure requirements for Canadian issuers

Even though CSDS 1 and CSDS 2 are in consultation, certain Canadian issuers are already subject to other disclosure requirements.

For instance, on March 22, 2024, the Office of the Superintendent of Financial Institutions (OSFI) released updates regarding Guideline B-15: Climate Risk Management, requiring Federally Regulated Financial Institutions' (FRFIs) disclosures to align with the IFRS S2 Climate-related Disclosures standard.[2]

In addition, the European Commission adopted the European Sustainability Reporting Standards (ESRS) last year, requiring the first group of companies[3] subject to the Corporate Sustainability Reporting Directive (CSRD) to apply the new rules for the first time in the 2024 financial year, for reports published in 2025. Although the CSRD is EU-based, it is currently estimated that at least 1,300 companies required to file financial reports in Canada will be affected.[4] Some of Millani's clients have already started preparing to meet these requirements.

Double materiality: An opportunity to do it all through an integrated approach

The CSSB's exposure drafts, coupled with the evolving ESRS and OSFI requirements, present strategic opportunities for issuers. The question of aligning materiality assessments with either IFRS S1 and IFRS S2, or the CSRD's ESRS, is a false dichotomy. A solution to managing these disclosure requirements is to undertake a double materiality assessment.

Doing so allows companies to determine which sustainability-related impacts, risks, and opportunities are material, as double materiality applies both impact and financial materiality perspectives.

Millani's 7th Annual ESG Disclosure Study, published in October 2023, found that recent regulations and best practices have already driven 19% of Canadian issuers conducting materiality assessments to adopt a double materiality perspective.[5] In addition, during our latest Institutional Investor ESG Sentiment Study, published in February 2024, Canadian investors underscored the value of double materiality in the way it uncovers risks and opportunities previously overlooked, helping to develop sustainable investment products, enhancing investment analysis, and ensuring alignment with the European Sustainable Finance Disclosure Regulation (SFDR). It also highlighted that doing a double materiality assessment could lead to inclusion in these new sustainable investment products, which are held over a longer-term because sustainability efforts produce returns over the longer term.[6]

CDSD 1 and CSDS 2 disclosures to remain voluntary for the time being

While the release of the exposure drafts by the CSSB marks a pivotal moment in advancing sustainability reporting in Canada, these disclosures will remain voluntary within the framework of Canadian securities legislation until their formal adoption through a Canadian Securities Administrator (CSA) rule.[7] The CSA has positively embraced the consultation phase and expressed a keen interest in the feedback gathered by the CSSB. However, the CSA has signaled that it anticipates only adopting provisions that are necessary to support climate-related disclosures.

How can we help?

Millani's double materiality methodology seamlessly ensures that the materiality assessment is aligned with, and enables disclosures required by, both IFRS S1 and IFRS S2 – and therefore the proposed CSDS 1 and CSDS 2 – as well as the ESRS required by the EU's CSRD regulation. If you would like more information on our services, please contact us at info@millani.ca or visit our website www.millani.ca.

Disclaimer: Please note that the content and material provided in this article is for general information purposes only. It is not to be taken or relied upon as legal advice and should not be used for professional or commercial purposes. This article is intended to communicate general information about relevant sustainably matters and reporting requirements as of the indicated date. The content is subject to change based on evolving regulatory reporting requirements.

2. OSFI continues building climate resilience, Office of the Superintendent of Financial Institutions (OSFI), March 2024.
3. The first group of companies includes entities already subject to the NFRD (Non-Financial Reporting Directive), which was replaced by the CSRD, and includes EU and non-EU entities with listed securities on an EU-regulated market as well as with more than 500 employees.
4. At Least 10,000 Foreign Companies to Be Hit by EU Sustainability Rules, Wall Street Journal, April 2023.
5. Millani's 7th Annual ESG Disclosure Study: Are Canadian companies ready for ISSB?, Millani, October 2023.
6. Semi-Annual ESG Sentiment Study of Canadian Institutional Investors, Millani, February 2024.
7 Canadian securities regulators issue statements on proposed sustainability disclosure standards and ongoing climate consultation, Canadian Securities Administrators (CSA), March 2024.

Millani

About Millani

Millani provides responsible investing and corporate sustainability advisory services, including ESG integration and impact, to both investors and companies.

For the past 15 years, Millani has become the partner of choice for institutional investors and corporations alike. By providing advisory services on integrating 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 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.

Millani's success is founded on a bespoke, client-centric approach that focuses on material issues, practical implementation, and independent advice. Our extensive capital market experience and unparalleled expertise in ESG, and its connection to value creation, position Millani at the nexus between investors and companies – making us unique in the Canadian market.

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