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To whom it may concern,

The Canadian Centre for Audit Quality (CCAQ) is pleased to respond to the Canadian Sustainability Standards Board's (CSSB) request for input on the Exposure Draft of the Canadian Sustainability Disclosure Standard (CSDS) 1, *General Requirements for Disclosure of Sustainability-related Financial Information* and the Canadian Sustainability Disclosure Standard (CSDS) 2, *Climate-related Disclosures*.

We support the establishment of a global baseline for sustainability reporting, and we understand that there is widespread stakeholder support for the creation and adoption of a standardized sustainability risk assessment and a climate-related metric disclosure standard. We believe that consistency across all sustainability related disclosure standards leveraging IFRS S1 and S2 is vital. We do, however, have concerns relating to some of the acknowledged key challenges that preparers and assurance providers will have with the standards, as summarized below:

- Limited transition period and a lack of scaling for small to medium sized public enterprises.
- The significant resource burden to implement the standard and how to apply “undue cost and effort.”
- The lack of standardization for entities performing scenario analysis and climate resilience quantification.
- Difficulty in calculating Scope 3 GHG emissions and other forward-looking information and the availability of verifiable information.
- A lack of safe harbour provisions for “good faith” estimates.

Further details on these concerns and other issues are outlined below.

The transition period and adoption date of CSDS 1 and CSDS 2

We believe that the adoption dates of January 1, 2025 for CSDS 1 and 2, and January 1, 2027 for Scope 3 GHG emissions disclosure may not provide enough time for preparers, board members and assurance providers to fully comply with the requirements of the standard. We are in support of a deferral; however, the deferral cannot be for an extended period. Appropriate consideration should be given to both the demands of the users and the reality that preparers and assurance providers will be significantly challenged by such a limited transition period, particularly small to medium sized entities who have less resources at their disposal to implement such requirements.

The speed at which this standard is expected to be implemented based on the proposed transition dates is inconsistent with previous major changes to IFRS financial reporting standards, and we are concerned that preparers and other professionals will be unable to implement these sustainability standards in the proposed period and produce high quality information.

Many companies will require additional time and incur costs to train and hire experts in sustainability reporting. Companies on the TSX-V may be challenged without additional time and investment to adopt these standards in the timeframe provided. The IFRS Sustainability Standards Board (ISSB) acknowledged this in their Effects Analysis, noting that the “costs of applying disclosure standards tend to fall largely on preparers in the form of direct costs. ... These effects are expected to be more pronounced

in the case of IFRS S1 and IFRS S2 because the preparedness of companies and jurisdictions is highly variable¹". The comment period for the exposure draft ends in June 2024 with a likely release of the standard in Q3 or Q4 of 2024. We understand that the issuance of the final standards by the CSSB will represent a significant step forward for Canada in sustainability reporting. We also understand that the responsibility for mandating the adoption of these standards by any Canadian company is outside of the responsibility of the CSSB; however, a transition date of January 1, 2025 (and January 2027 for Scope 3 emissions) may create unrealistic expectations that Canadian companies could be ready to report on this timeline. In our research, we do not believe that many Canadian companies will have the expertise, data or systems in place to meet that transition date. Assurance providers may be similarly challenged in attesting to these revised disclosure requirements if their clients are not prepared.

In the IFRS Foundation ("Foundation) adoption guide overview for IFRS S1 and S2, the Foundation acknowledged "that jurisdictions may consider the scaling and phasing-in of requirements in ISSB Standards based on different parameters, including the size and relative preparedness of companies, and the industries and market segments in which companies operate. ...Jurisdictions may consider providing brief extensions of transition reliefs beyond the provisions included in ISSB Standards to facilitate the first-time implementation of ISSB Standards"², including Scope 3 GHG emission disclosure requirements. Providing additional transition relief particularly for smaller entities, such as public companies on the TSX-V or the CSE, will allow companies to develop their sustainability resources, establish internal controls and observe best practices. We recommend a "phased approach"³, a method which did receive widespread support from Canadian commentators in the original IFRS S1 and S2 comment period in 2022⁴.

In addition to an extended transition period based on the size and governance of an entity, we also recommend that additional guidance, illustrative examples, and resources tailored towards small to medium sized companies be made available upon adoption to decrease the implementation burden on these entities. We encourage the CSSB to balance the needs of sustainability information users with the complexity of implementing such a significant risk and reporting disclosure standard in a short period of time.

¹ IFRS Sustainability, "Effects Analysis: IFRS S1 General Requirements for Disclosure of Sustainability-related Financial Information and IFRS S2 Climate-related Disclosures". Published June 2023.

² IFRS Foundation, "The jurisdictional journey towards implementing IFRS S1 and IFRS S2 — Adoption Guide Overview". Published July 2023.

³ We believe that the adoption approach by the SEC in their March 2024 ruling to "Enhance and Standard Climate-related Disclosures for Investors" should be considered. The SEC has scaled the implementation of the standard, requiring "large accelerated filers (LAF)" to implement the regulations first, followed by smaller filers in subsequent years. The climate-related disclosure rules were published by the SEC on March 6, 2024. Due to multiple court challenges, the SEC has paused on enforcing the ruling until the courts have established a verdict on the regulation's validity.

⁴ Please refer to the following comment letters reviewed by the CCAQ:

- The CSA, in their July 25, 2022 comment letter, noted that "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"
- The Auditing and Assurance Standards Oversight Council (AASOC), in their July 28, 2022 comment letter, noted that "while it might be operationally feasible for large, experienced entities to, for example, align Scope 1 and 2 emissions disclosure with financial reporting within two to three years, this is not likely the case for Scope 3 emissions. Smaller entities are likely to face longer transition windows for the reasons outlined above. ...There is broad recognition that small entities will require more time, and there are several ways to address near-term implementation challenges. These include flexible approaches (multiple ways to comply with a given requirement), phased-in requirements (prioritization of select disclosure requirements in the early stages of adoption, with others to follow) and graduated/staggered starts based on entity characteristics, such as workforce size or market capitalization. Certain of these measures will be at the discretion of local securities regulators and legislators".
- The Accounting Standards Board (AcSB), in their July 28, 2022 letter, noted that "most of Canada's publicly accountable entities are small to mid-sized. In order for the first phase of the global baseline to be broadly achievable, we recommend that the ISSB consider setting the requirements at a level that entities without extensive resources (e.g., smaller entities) would be able to meet".

Without undue cost and effort

Both CSDS 1 and 2 require the preparation of sustainability and climate-related disclosures using “all reasonable and supportable information that is available to the entity at the reporting date without undue cost or effort”⁵. The use of the phrasing “without undue cost and effort” is borrowed from specific IFRS accounting standards in areas where significant effort and judgment by the preparer is required. However, in practice it is very rare that a preparer determines that they could not obtain information supporting a significant judgment due to the undue cost and effort it would take to retrieve that data.

Much of the data necessary to comply with the CSDS 1 and CSDS 2 disclosure standards will be obtained from unrelated entities, which would have an impact on larger reporting issuers if they are relying on smaller, less sophisticated entities for climate-related information. It is unclear how the language “without undue cost and effort” could be applied by either those who have limited experience with sustainability reporting and are significantly resource constrained or by those who are relying on those entities for sustainability information, particularly in the first few years of implementation⁶.

Scenario analysis

CSDS 2 does not provide a standardized approach to scenario analysis, a new concept for most Canadian reporting issuers who will require clear implementation guidance. The standard as currently proposed will allow an entity to use “climate-related scenario analysis to assess its climate resilience using an approach that is commensurate with the entity’s circumstances ... the entity may disclose a single amount or a range”⁷. This provides an overview, but not detailed guidance. The consideration of skills, capabilities, resources, and industry practice, as highlighted by CSDS 2, in determining the approach to scenario analysis will require more guidance from the CSSB before implementation to ensure high quality reporting.

We are concerned that the lack of detailed guidance may result in a lack of comparability between entities within the same jurisdiction or industry, as some will choose a single amount and others a range of amounts to calculate climate resilience, and the format and segmentation of sustainability and climate related information may be completely different for two similar publicly listed entities. We recommend a more standardized approach, providing a few different and detailed alternatives that preparers can choose from based on the size and complexity of their sustainability-related activities, an approach previously supported by CPA Ontario and CPA Quebec⁸. Another possible approach could entail a phased transition period that permits the use of a qualitative analysis when an entity is unable to use climate-related scenario analysis, recognizing that smaller entities will be resource constrained in implementing the scenario analysis as proposed, and that it will take several years for them to appropriately comply. This is consistent with the *IFRS Adoption Guide Overview: Table 1*, which states that qualitative approaches to

⁵ CSDS 1 Paragraph 37(a)

⁶ We believe that the standard should clarify whether small to medium sized private enterprises will be scoped into this standard, either by virtue of their own reporting or through their relationships with larger publicly traded enterprises. According to Statistics Canada, 97.8% of all businesses in Canada as of December 2022 are considered “small businesses”, and 1.9% are considered “medium-sized businesses”. This significant volume of small-medium sized businesses relative to the number of large or publicly traded Canadian businesses should be considered by the CSSB and other regulators when determining the appropriate proportionality and scaling approach in the application of this standard. **Source:** “Key Small Business Statistics 2023”, Statistics Canada. Last modified March 18, 2024. Link: <https://ised-isde.canada.ca/site/sme-research-statistics/en/key-small-business-statistics/key-small-business-statistics-2023>

⁷ CSDS 2 Paragraph 22

⁸ As noted in their July 29, 2022 comment letter, CPA Ontario and Quebec stated that “we recommend that the ISSB develop a phased-in approach for the implementation of scenario analysis until standardized assumptions and methodologies are developed. During this phased-in approach, entities could choose from one or two alternative approaches, such as qualitative information and stress tests to promote comparability and consistency of the information disclosed by entities. This will also provide the time for data collection and discovery.”

climate-related scenario analysis should be considered for proportionality when an entity lacks skills, capabilities or resources⁹.

Scope 3 GHG Emissions and Forward-Looking Information

We understand that there is still concern from preparers related to the lack of available data for Scope 3 GHG emission information, and in some cases, Scope 1 and Scope 2 data. This concern was raised in response to the original IFRS S1 and IFRS S2 exposure draft circulated for comment, and the revised CSDS 2 standard does not appear to address the impact that this lack of available information will have on preparers implementing this standard in the 2027 calendar year.

As noted by CPA Canada in their July 29, 2022, comment letter, “significant diversity in Scope 3 measurement and reporting practices that are allowed in applying the GHG Protocol’s standards limits the usefulness of such information for investors”¹⁰. The assumption in the standard that “Scope 3 greenhouse gas emissions can be estimated reliably using secondary data and industry averages”¹¹ might be premature given that preparers noted difficulties in 2022 of receiving data from other entities in their value chain¹², and we are concerned that these difficulties remain. We believe that Scope 3 GHG emission metrics should not be a required disclosure until there is broader consensus on appropriate measurement methodologies, reliable sources of information for each industry sector, and until the proliferation of reliable GHG data across the value chain has become available.

Preparers may be similarly challenged in applying the guidance for forward looking information, particularly how to connect short-, medium- and long-term metrics disclosure with their general purpose financial statements, and whether that disclosure will subject the company to increased legal liability and result in accruals with high estimation uncertainty. The entity is also responsible for defining its own interpretation of short-, medium- and long-term, which reduces the comparability of forward-looking information between similar entities. We recommend that the CSSB research and provide clear guidance on the connection between short-, medium- and long-term forward-looking metrics and financial reporting in general purpose financial statements. The CSSB should also consider limiting the parameters around the definition of short-, medium- and long-term in the context of forward-looking information to increase comparability and consistency across reporting issuers.

⁹ IFRS Foundation, “*The jurisdictional journey towards implementing IFRS S1 and IFRS S2 — Adoption Guide Overview*”. Published July 2023.

¹⁰ Please refer to CPA Canada’s July 28, 2022, comment letter to the ISSB regarding IFRS S1 and IFRS S2.

¹¹ CSDS 2 paragraph B57.

¹² Please refer to the July 28, 2022 comment letter on IFRS S1 and S2 as submitted by the Accounting Standards Board (AcSB).

Other Comments

While some of our comments below may not be under the direct responsibility of the CSSB, the following comments provide important context for the views we expressed above.

A Safe Harbour

We recommend that a safe harbour rule for “good faith estimates” be established to protect reporting issuers from legal liability. The SEC has provided in its most recent legislation a “safe harbor from private liability for climate-related disclosures related to transition plans, scenario analysis, internal carbon pricing, and targets and goals”¹³, and this approach was supported by several Canadian stakeholders in the original 2022 comment period for the international standard¹⁴.

Modified Audit Opinions

We are supportive of the standards and their adoption within a reasonable time period, however, there is concern that it may be more likely that preparers will be unable to provide sufficient, appropriate evidence to assurance providers to support an unqualified reasonable or limited assurance opinion on the sustainability related risks and disclosures. As a result, there may be an increase in the number of modified audit opinions on sustainability-related information in the early years of reporting. Some audit firms¹⁵ are already anticipating that more assurance providers will be reporting a modified opinion over an entity’s sustainability disclosures. The International Auditing and Assurance Standards Board (IAASB) also recognizes that more and more assurance reports will result in a modified opinion in the early years of standard adoption and have provided Illustrative Examples in Appendix 2 of ISSA 5000 (International Standard on Sustainability Assurance 5000: *General Requirements for Sustainability Assurance Engagements*), which include a modified limited assurance report on sustainability information (Illustration 4)¹⁶. It is unclear whether investors and securities regulators will accept modified assurance reports for sustainability information.

Assurance

Standard setters and regulators should consider whether assurance levels currently required by other established capital markets, including the United States, are appropriate. We recommend that the assurance requirements, whether they be limited or reasonable assurance, be comparable to other top capital markets. We believe it is important for standard setters and regulators to educate user groups on what constitutes limited and reasonable assurance.

¹³ Association of International Certified Professional Accountants (AICPA) and the Center for Audit Quality (CAQ): “*Summary of The Enhancement and Standardization of Climate-Related Disclosures for Investors*”. As published on March 12, 2024. Link: <https://www.aicpa-cima.com/resources/download/aicpa-summary-sec-proposed-rule-on-climate-related-disclosures>

¹⁴ Please refer to the following comment letters reviewed:

- The Canadian Bankers Association (CBA) noted in their July 29, 2022 letter that “entities will be required to balance the request for useful, transparent disclosure against the fact that methodologies and data continue to evolve, and so additional safe harbour protection may be beneficial to entities and encourage more transparency and decision-useful disclosures”.
- CPA Ontario and CPA Quebec noted in their July 29, 2022 letter that they “recommend that the various regulatory jurisdictions provide for a safe harbor rule over sustainability-related disclosures relating to scenario analysis to potentially safeguard company directors and officers from legal or regulatory liability over forward-looking reported information and encourage companies to provide such analysis”.
- The Business Council of Canada noted in their July 29, 2022 letter that “a ‘safe harbour’ provision is also necessary to protect issuers who make good faith efforts to report scope 3 emissions.”

¹⁵ Shannon, Mike (Global Head of ESG Assurance), KPMG “*Limited vs reasonable assurance over ESG*”. Published February 24, 2024. Link: <https://kpmg.com/xx/en/blogs/home/posts/2024/02/limited-vs-reasonable-assurance-over-esg.html>

¹⁶ In their explanatory memorandum for ISSA 5000, the IAASB commented in paragraph 129 that “stakeholders noted that modified assurance reports on sustainability information are expected to be more common given that sustainability reporting is still maturing, and therefore a report illustrating a qualified conclusion would also be helpful.”

We believe that a “phased approach”, as proposed by the SEC, would be appropriate¹⁷. We are concerned that users may not understand that limited assurance and reasonable assurance are substantially different, and that sustainability reports may not have the same level of assurance as the general purpose financial statements.

Comparability with the United States Climate Legislation

Although the SEC recently paused the introduction of their climate disclosure rules, their March 2024 legislation would not require scenario analysis¹⁸ nor Scope 3 GHG emission disclosure. We recommend that the CSSB conduct research to determine whether a lack of comparability in climate disclosure with the United States will create any negative consequences for multi-jurisdictional filers. We also encourage collaboration between the various standard setters with an eye to eventual convergence of sustainability disclosure requirements.

The Modification Framework

We agree that it is prudent to consider circumstances that are unique to Canada, such as Indigenous matters, when drafting Canadian-specific additions to the proposed standard, as larger, multi-jurisdictional filers will still be able to comply with those reporting requirements while also being able to claim compliance with IFRS S1 and S2. Broader amendments to the IFRS S1 and S2 standards, or the deletion of certain requirements would not be supported, however, except when the changes to the international standards relate to transitional provisions or making certain requirements voluntary with a “comply or explain” requirement. If the CSSB were to accommodate small to medium sized public and private enterprises, they could consider creating a separate, uniquely Canadian framework like Part II (ASPE) that would have less stringent disclosure requirements than IFRS S1 and S2, but that would still satisfy stakeholder requirements for additional transparency over sustainability risks and metrics.

We appreciate the work done by the CSSB on this critical area and the opportunity to comment on these proposals. If you have any questions or require additional information, please contact me at michael.walke@ccaq-ccqa.com.

Yours very truly,



M. C. Walke

The Canadian Centre for Audit Quality (CCAQ) is an independent not-for-profit Canadian corporation dedicated to supporting Canadian audit firms and public accountants in fulfilling their public interest role, and investors and other stakeholders with public policy and public interest issues. The CCAQ's founding members are the seven largest Canadian independent registered CPA accounting firms.

¹⁷ Association of International Certified Professional Accountants (AICPA) and the Center for Audit Quality (CAQ): “Summary of The Enhancement and Standardization of Climate-Related Disclosures for Investors”. As published on March 12, 2024. Link: <https://www.aicpa-cima.com/resources/download/aicpa-summary-sec-proposed-rule-on-climate-related-disclosures>

¹⁸ The final ruling does not mandate the use of scenario analysis, however a public registrant must “disclose its use of such risk management tools only if its use of them is material or yields material information”. Please refer to “Comprehensive Analysis of the SEC’s Landmark Climate Disclosure Rule (March 15, 2024; Updated April 8, 2024) by Deloitte. Link: <https://dart.deloitte.com/USDART/home/publications/deloitte/heads-up/2024/sec-climate-disclosure-rule-ghg-emissions-esg-financial-reporting>