June 10, 2024

Canadian Sustainability Standards Board (CSSB)

Charles-Antoine St-Jean, CSSB Chair

Dear Chair St-Jean,

We are writing to you on behalf of a group of Canada's leading pension plan investment managers that collectively manage over $2 trillion in assets for the long-term benefit of millions of Canadians, of which over $550 billion is invested in Canada. We appreciate the opportunity to comment on the CSSB's proposed disclosure standards – *Exposure Drafts General Requirements for Disclosure of Sustainability-related Disclosure Standard* (**CSDS 1**) and *Climate-related Disclosures* (**CSDS 2**), collectively the **CSSB Standards**, and the *Proposed Criteria for Modification Framework*.

First and foremost, we commend the CSSB on its efforts to develop a set of standards that would enhance the quality, consistency and comparability of sustainability-related information reported by Canadian entities. We support the CSSB's drafting of CSDS 1 and CSDS 2 in broad alignment with the International Sustainability Standards Boards' (**ISSB**) Sustainability Disclosure Standards, IFRS S1 and S2, as we believe this will facilitate global comparability of sustainability-related disclosures, ensuring Canadian directors have the information they need to appropriately oversee strategy, and investors like us to make more informed investment decisions. This will also support Canadian issuers' access to global capital markets and reduce reporting burden for Canadian entities that operate or raise capital in multiple jurisdictions.

We also recognize that the proposed CSSB Standards would become voluntarily effective for annual reporting periods beginning on or after January 1, 2025, until the Canadian Securities Administrator (**CSA**) determines whether and how the CSSB Standards will be incorporated into a CSA rule. We caution that future modifications by the CSSB or CSA have the potential to limit cross-border users' access to timely, consistent and comparable sustainability-related financial information in general-purpose financial reports. We view the domestic regulators as best placed to consider when adoption should become mandatory through securities regulation and that the CSSB should remain focused on defining the standard to meet users' demands for sustainability-related financial disclosures as specified in the exposure draft.

While we appreciate that recent sustainability reporting consultations and published standards in other markets may result in consultation responses advocating to carve out Scope 3 GHG emissions and non-climate disclosures, we view global adoption of the ISSB as proposed, including in Canada, as the only credible route to secure the ISSB's equivalence with the European Sustainability Reporting Standards (ESRS). Failure to adopt the global baseline in Canada may not only risk issuers falling short of meeting global and domestic investors' expectations of their directors to oversee corporate strategy in the near-term, but also risk issuers having to adopt Canada's final standards and European reporting standards, which could be more onerous for issuers over time.

We have reviewed the exposure drafts of the CSDS and provide our comments below.

- **Criteria for Modification Framework:** We agree with proposed paragraphs 1(a) and 1(b). Regarding paragraph 2, we support the ISSB's "building block" approach, which allows for additions to the global baseline and limits modifications or deletions (as per IFRS S1 BC78). Therefore, we recommend that the CSSB consider only additions to the ISSB baseline when unique circumstances arise in the Canadian public interest, such as addressing the rights of Indigenous Peoples. We believe this approach would best serve the ISSB's objective of achieving interoperability across jurisdictions.

- **Effective date**: We support the timeline extension for CSDS 1 and CSDS 2 compliance to January 1, 2025, which is a year later than the ISSB's January 1, 2024 effective date. With the expected timing of CSDS 1 and CSDS 2 issuance almost a year after IFRS S1 and S2, this extension provides a reasonable relief for Canadian issuers.

- **Non-climate disclosures transition relief**: We are not supportive of this transition relief of allowing companies two years during which an entity is permitted to disclose information on only climate-related risks and opportunities. We recommend alignment with ISSB allowing issuers this transition relief only for the first reporting period. Where sustainability-related factors are material, they have the potential to present material financial impacts to companies' performance and is important information for boards and investors. We caution that this relief may place Canadian companies at a disadvantage to foreign entities that are reporting across all sustainability-related issues.

- **Scope 3 GHG emissions transition relief**: We are open to this relief, in principle, as it provides issuers more time to prepare and could also give regulators time to determine the appropriate safe harbor given the assumptions required to report this data. However, we strongly encourage issuers to not delay the measurement and reporting of Scope 3 emissions. We agree with the CSSB's comments that for many entities "Scope 3 GHG emissions make up a significant part of the entity's total GHG emission inventory, [and] Scope 3 GHG emission information is, therefore, critical for investors to understand an entity's exposure to climate-related risks and opportunities within its value chain."

  Entities taking steps to disclose and reduce their Scope 3 emissions provide evidence of transition risk management to investors. Disclosures of Scope 3 emissions can also help companies prioritize emission reduction strategies, encourage product innovation, and identify leaders and laggards in their value chain. While we share the concerns from preparers about potential uncertainty of Scope 3 GHG emissions measurement and challenges related to capacity, the proposed CSDS 2, consistent with IFRS S2, requires that entities use "reasonable and supportable information that is available to the entity at the reporting date without undue cost or effort". We believe this proportionality allows entities to reduce the reporting burden of disclosing Scope 3 GHG emissions.

- **CSDS 1: Timing of reporting**. As users and preparers of this information, we understand the challenges of aligning reporting of sustainability-related impacts with financial statements and are open to supporting additional transition reliefs on this matter. We emphasize that the end-state should be one of alignment with ISSB and concurrent reporting, and issuers should consider starting efforts to eventually report concurrently. The CSSB could support preparers with additional guidance and support on this important requirement.

- **CSDS 2: Climate resilience (scenario analysis)**. The group recognizes the limitations of scenario analysis in comprehensively assessing climate resilience. We, nevertheless, do not support the transition relief on scenario analysis as we believe that issuers can greatly benefit from starting to conduct scenario analysis, even if just qualitatively, and learn as the practice, vendor capabilities and data evolve. Starting preparations early will allow Canadian preparers to enhance their readiness ahead of any potential mandatory application of CSDS standards. We recognize that producing these disclosures can involve significant effort for companies, especially smaller enterprises with fewer resources. Regulators may decide to lighten this burden on these smaller issuers by allowing further reliefs, such as multi-year implementation, that can allow smaller companies to build the capacity they need to manage these risks where they are material, while not losing access to capital.

In conclusion, we support the CSSB's initiative to develop the CSDS in alignment with the IFRS S1 and S2 and commend the CSSB for its leadership and collaboration in advancing the sustainability reporting agenda in Canada and globally. We believe the CSDS will benefit Canadian entities and stakeholders by providing a high-quality, consistent and comparable set of standards for sustainability-related financial information.

We appreciate the CSSB's consideration of our comments and suggestions, and we look forward to the publication of the CSDS. We remain available to provide further input or clarification as needed.

Sincerely,

PSP

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