FRAS
Financial Reporting &
Assurance Standards
Canada

Sustainability

CSSB Exposure Drafts: Proposed CSDS 1, CSDS 2, and CSSB Consultation Paper: Proposed Criteria for Modification Framework

Responses to Exposure Drafts and Consultation Paper

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July 2024

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3	ESG Global Advisors
4	ESG2 Insight
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To:

Charles-Antoine St-Jean, Chair,
Canadian Sustainability Standards Board
277 Wellington Street West Toronto, Ontario M5V 3H2
and to:
Lisa French, Vice-President, Sustainability Standards
Canadian Sustainability Standards Board
277 Wellington Street West Toronto, Ontario M5V 3H2

Re: Canadian Sustainability Disclosure Standard (CSDS) Exposure Draft, CSDS 1 General Requirements for Disclosure of Sustainability-related Financial Information and CSDS 2 Climate-related Disclosures

Thank you for the opportunity to comment on the Canadian Sustainability Standards Board (CSSB) consultation on its proposed Canadian Sustainability Disclosure Standard (CSDS) 1 General Requirements for Disclosure of Sustainability-related Financial Information (CSDS 1) and CSDS 2 Climate-related Disclosures (CSDS 2). We, the Trottier Family Foundation, support the CSSB's efforts to adopt the International Financial Reporting Standards (IFRS) Foundation's International Sustainability Standards Board (ISSB) *IFRS S2 Climate-related Disclosures* (IFRS S2) and IFRS S1 *General Requirements for Disclosure of Sustainability-related Financial Information* (IFRS S1) almost in their entirety, More specifically, we support the Canada Climate Law Initiative (CCLI) submission to CSSB on CSDS 1 and CSDS 2, including the following three key recommendations:

1. The CSSB should fully adopt IFRS S1 and IFRS S2 in CSDS 1 and CSDS 2, with the only change being the effective date, January 2025 instead of January 2024.

1. The CSSB should not delay the requirement for Scope 3 emissions disclosure. It is important to begin disclosure as 70-80% of Canada's greenhouse gas (GHG) emissions are Scope 3 emissions.[1] The CCLI submits that the transition and proportionality provisions of paragraphs 37-40 in CSDS 1 and paragraphs 18-20 of CSDS 2 allow for accommodation of the size, skills, sophistication, and resources of entities, offering considerable accommodation and guidance for when an entity is not able to disclose quantitative information.

1. The CSSB should not delay the effective date for disclosures beyond climate-related risks and opportunities for two years. At this stage, the standards are voluntary, and there is no need to delay implementation deadlines. The same transition and proportionality provisions will accommodate differences in capacity, skills and resources, and will support meaningful transition.

We believe these recommendations will help advance clear and consistent standards that will protect Canada's financial system, its users, and the public interest more generally. It is critically important that Canada adopt consistent and comparable standards of climate-related and sustainability-related financial disclosures that are aligned with the global baseline to meet the needs of capital and financial markets. We strongly support the requirement of an entity to report on climate-related risks and opportunities in its value chain, including external relationships with customers, suppliers, society, and nature and biodiversity, as the value chain has an impact on the entity's ability to generate enterprise value over the short, medium, and long term.

Sincerely,

Natacha Zenie,
Chief Executive Officer and Chief Investment Officer / Directrice Générale et Chef des Investissements

June 7th, 2024

Submitted electronically through the FRAS Canada website (frascanada.ca).

Re: CSSB First Canadian Sustainability and Climate Disclosure Standards

We are pleased to participate in this opportunity to respond to the Canadian Sustainability Standards Board (CSSB) in its request for comments regarding its first proposed Canadian Sustainability Disclosure Standards (CSDS) Exposure Drafts.

Electricity Canada is the national forum and authoritative voice of electricity in Canada. Electricity Canada members represent approximately 90 percent of all generation, transmission, distribution, and marketing of electricity in Canada, as well as leading manufacturers and suppliers to the industry. Our industry has made significant strides in contributing to emissions reduction and climate adaptation. According to the Electricity Canada Sustainability 2021 Report, in 2020 an impressive 85% of the net energy generated stemmed from non-fossil fuel sources, marking a substantial shift towards low-carbon energy. The implementation of external conservation programs has also yielded remarkable results, with a 90% increase in energy savings between 2019 and 2020. Furthermore, Electricity Canada members have consistently decreased priority emissions, achieving their lowest levels in 2020. During this time, investment in infrastructure has remained robust, with expenditures totaling $13.73 billion in 2020, underlining our commitment to modernizing and cleaning our energy systems. These achievements underscore our industry's proactive approach towards sustainability and its crucial role in mitigating climate change effects.

Electricity Canada is supportive of the CSSB's work to advance the adoption of sustainability disclosure standards in Canada that align with the global baseline standards developed by the International Sustainability Standards Board (ISSB) with modifications that serve the Canadian public interest.

While we acknowledge that the CSDS 1 and CSDS 2 will be adopted on a voluntary basis, we understand that the Canadian Securities Administrators (CSA) will consider the final CSSB standards when developing their mandatory reporting requirements for Canadian issuers. We understand the value of alignment with global standards to allow Canadian issuers to effectively compete in domestic and global capital markets. However, we note that alignment within the highly interconnected North American market is also a critical consideration for Canadian companies.

The United States Securities and Exchange Commission (SEC) has recently finalized reporting rules on climate-related risks and greenhouse gas (GHG) emissions. General alignment with the ISSB sustainability standards, supplemented with consideration of certain aspects of the SEC rule, is a key consideration for the Canadian context. For this reason, Electricity Canada believes the CSSB should consider modifications to CSDS 2 to align with the SEC's climate-related disclosure rule, where appropriate. Such changes would reflect the unique perspective of Canadian reporting issuers, including the interconnected and competitive environment in which they

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operate, and would reflect the CSSB's mandate to align with baseline standards developed by the ISSB, but with modifications to serve the Canadian public interest.

With this context in mind, below we offer comment on four key areas of concern for our members: Scope 3 emissions reporting, scenario analysis reporting, transition relief relating to non-climate sustainability reporting, and transition relief around the timing of reporting. We close with a request for clarification around Sustainability Accounting Standards Board (SASB) metrics used for identifying climate-related risks and opportunities.

Scope 3 Emissions

While many Electricity Canada member companies already disclose their scope 1 and 2 emissions, scope 3 emissions are particularly challenging to properly assess and this requires more time to develop and implement. Currently, different organizations can be using a variety of methodologies for estimating scope 3 emissions and defining their value chain. There is a lack of confidence in the availability, quality, and reliability of data received from suppliers and vendors. Without additional work to determine how these emissions can be effectively reported, much of the scope 3 disclosures would be based on estimation and assumptions, which would ultimately not provide meaningful comparisons between organizations and would not be useful to investors.

Recognizing the inherent challenges in reporting scope 3 emissions, the SEC has excluded the mandatory reporting of scope 3 GHG emissions in its final rule. Given the capital-intensive nature of our member companies in the electricity sector and Canada's significant interconnection with the US market, the requirement for mandatory scope 3 emissions reporting in the Canadian context would present difficulties for Canadian issuers in relation to capital market competitiveness and access to capital.

A requirement to provide more information than our US counterparts could put Canadian companies at a significant competitive disadvantage as Canadian companies disclosing scope 3 emissions will face a higher regulatory and compliance burden relative to their US peers. This includes added administrative and cost burdens, requiring Canadian companies to divert scarce resources to reporting. Canadian reporting companies may face an additional competitive disadvantage as they could be perceived as having significantly higher GHG emissions than US counterparts if they are required to disclose an additional scope of emissions. This could lead to a negative perception in the marketplace and possibly added scrutiny from investors and analysts.

Considering the Canadian context outlined above, Electricity Canada disagrees with the proposal in the CSDS 2 and believes that Scope 3 emissions disclosure should not be required at this time.

Scenario Analysis

Electricity Canada members similarly believe that the proposed standards should not require the disclosure of scenario analysis at this time. In addition to concerns around the need for considerable resources, which are generally not available in small or mid size enterprises, there is a lack of standardized guidance around conducting scenario analysis for our industry, including well-defined time horizons, such that the scenario analysis and quality of reports delivered would vary and would not be comparable between different companies, therefore reducing the value significantly. The results of quantitative scenario analysis are not financial forecast or forward-looking guidance, and inherently contain a significant degree of uncertainty and variability. The flexibility included in the CSDS 2 acknowledges the resourcing challenges, yet does not alleviate concerns around lack of comparability.

We note that the SEC does not require any registrant to conduct scenario analysis in their finalized rule. Scenario analysis disclosure is only required if the registrant already uses scenario analysis for assessing the impact of climate-related risks and if the identified risks are reasonably likely to have a material impact on the business. As described in the previous section, Canadian standards should recognize the interconnected nature of the North American market and consider the competitiveness of Canadian businesses within it.

Non-Climate Sustainability Reporting (CSDS 1)

We recommend additional transition relief for the general sustainability reporting standards (CSDS 1), ideally until further topic-specific standards (similar to CSDS 2) have been developed around other sustainability-related information (e.g., diversity).

The CSA anticipates adopting only those provisions of the sustainability standards that are necessary to support climate-related disclosures at this time.[1] This is in alignment with the US SEC rule, which does not currently require the reporting of non-climate sustainability information. As previously stated, we believe it is important for the Canadian standards to remain consistent with the SEC rule where possible.

While we are supportive of the direction of the standards, a phased approach or additional transition relief would also give Canadian companies time to develop maturity on climate-related disclosures before incorporating additional requirements.

Timing of Reporting

We understand that CSSB is seeking feedback on the timing of reporting. Electricity Canada agrees with the aim to ultimately align the timing of sustainability disclosures with annual financial disclosures. However, Canadian utility companies have generally released their Annual Information Form (AIF) or the year-end annual Management's Discussion and Analysis (MD&A), and sustainability reports at different times in the year. Sustainability reports are generally reported later due to their reliance on third-party data, the complexity of collecting the data required to calculate certain sustainability metrics, including GHG emissions, and resource constraints during the year-end period.

Due to existing Canadian regulatory reporting requirements for GHGs, expedited reporting timelines to align sustainability and financial reporting will result in significant system redesign and process changes, incurring additional costs. In addition, expedited reporting may require the use of estimate-based accruals for a significant portion of the reporting period. This would reduce the accuracy and usefulness of the information and create

[1] https://www.securities-administrators.ca/news/canadian-securities-regulators-issue-statements-on-proposed-sustainability-disclosure-standards-and-ongoing-climate-consultation/

inconsistencies between estimated GHG emissions reported concurrently with annual financial disclosures and the actual GHG emissions reported for regulatory purposes later in the year.

As such, Electricity Canada members request that additional transition relief of at least one year be provided for disclosers to submit sustainability and climate information. This will be especially important for electricity companies who have not yet fully adopted the various international disclosure standards and will require additional time before being able to align the disclosures.

Additionally, the SEC recognized these challenges in its final climate-related disclosure rule by allowing registrants to delay disclosure of Scope 1 and 2 GHG emissions to the second fiscal quarterly report for the following year. We believe the CSSB should also consider modifying the timing of reporting Scope 1 and 2 emissions within CSDS 2 to align with this provision of the SEC rule.

Non-GHG SASB Metrics

Finally, we request additional clarification regarding which non-GHG SASB metrics (e.g., air pollutants, water management, waste, biodiversity, and ecosystems) should be used in "identifying the climate-related risks and opportunities that could be expected to affect an entity's prospects."[2] There is some confusion among Canadian companies regarding whether this includes SASB climate metrics outside of GHG emissions, and, if so, which specific metrics are relevant. Given that multiple companies have interpreted this differently, we kindly request that further detail be provided to elucidate the scope referred to in CSDS 2, paragraph 12.

We thank you for this opportunity to comment on the CSDS Exposure Drafts. Should you have any questions or require any additional information about our comments, please contact Diana Dominique, Electricity Canada's Senior Director, Customer Solutions and Sustainability. Diana may be contacted as follows:

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Sincerely,

Francis Bradley
President and CEO
Electricity Canada

[2] CSDS 2, Paragraph 12.

Emera 5151 Terminal Road ● Halifax, Nova Scotia ● Canada ● B3J 1A1

June 10, 2024

Submitted electronically through the FRAS Canada website (frascanada.ca).

Dear Sir/Madam,

RE: CSSB Exposure Drafts – Canadian Sustainability Disclosure Standards 1 and 2

Emera Incorporated (Emera) is pleased to participate in the Canadian Sustainability Standards Board's (CSSB) request for comments regarding its first proposed Canadian Sustainability Disclosure Standards (CSDS) Exposure Drafts and welcomes this opportunity to provide feedback. Emera commends and is supportive of the CSSB's efforts to advance the standardization of voluntary sustainability and climate-related disclosure standards in Canada that generally align with the global baseline standards developed by the International Sustainability Standards Board (ISSB) with consideration of modifications required that better serve the Canadian public interest. We note that Emera has also participated through its membership in Electricity Canada (formerly the Canadian Electricity Association) in the preparation and submission of a comment letter to the CSSB.

Overview of Emera

Emera is an international energy and services company headquartered in Halifax, Nova Scotia, with approximately $40 billion in assets and 2023 annual revenues of approximately $7.6 billion. Emera primarily invests in regulated electricity generation and electricity and gas transmission and distribution.

Emera's strategy is focused on safely delivering cleaner, reliable energy in way that is balanced with the cost impacts for our utilities' consumers. Sustainability is foundational to our strategy, and our progress is a demonstration of the corporate values that we follow across Emera. Since 2005, Emera has reduced our Scope 1 and 2 CO_2 emissions by 47%. Our Climate Commitment articulates our clean energy objectives and our vision to achieve net-zero CO_2 emissions by 2050.

More than 60 per cent of our $9 billion capital plan over the 2024 through 2026 period is committed to cleaner energy and reliability initiatives across the business. This includes significant investment in renewable and cleaner energy generation, reliability and system integrity, infrastructure modernization and expansion, and advancing technologies.

Emera releases annual voluntary sustainability reports informed by voluntary frameworks and standards, including the Sustainability Accounting Standards Board (SASB) Standards, the Task Force on Climate-Related Financial Disclosures (TCFD) Recommendations and the Global Reporting Initiative (GRI) Standards. We are committed to enhancing our sustainability reporting over time and to providing updates to stakeholders through these reports into the future.

Emera has investments in Canada, the United States (US) and in three Caribbean countries. Emera's common and preferred shares are listed and trade on the Toronto Stock Exchange (TSX) and as such, Emera is a Canadian reporting issuer required to comply with the Canadian Securities Administrators (CSA) reporting requirements. Emera and certain subsidiaries also have publicly held debt securities that are registered with the United States Securities and Exchange Commission (SEC). As a result, Emera is also a voluntary filer with the SEC and we satisfy our voluntary filer disclosure obligations in the US under the multijurisdictional disclosure system. Emera's largest US subsidiary, Tampa Electric Company (TEC), is a debt-only issuer with SEC reporting obligations.

Comments

While we understand that the CSDS Exposure Drafts will be adopted voluntarily in Canada, we are mindful that the CSA is focusing on climate-related disclosures at this time and will consider the final CSSB standards and feedback thereon when developing their mandatory climate-related disclosure requirements for Canadian reporting issuers. We are generally supportive of alignment with global standards in order to allow Canadian companies to effectively compete in domestic and global capital markets. However, we want to highlight that alignment within the highly interconnected North American capital markets is a key concern for Emera as a Canadian reporting issuer.

The SEC has finalized its reporting rules on climate-related risks and greenhouse gas (GHG) emissions, '*The Enhancement of Standardization of Climate-Related Disclosures for Investors*' (Final Rule). Emera is of the view that having general alignment with the ISSB sustainability standards, supplemented with consideration of certain key aspects of the SEC Final Rule, is important in the Canadian context. For this reason, Emera believes the CSSB should consider modifications to CSDS 2, as described below, to align with key aspects of the SEC's climate-related disclosure rule. Such changes would reflect the unique perspective of Canadian reporting issuers, including the interconnected and competitive environment in which they operate and compete for capital, while still reflecting the CSSB's mandate to align with baseline standards developed by the ISSB, but with modifications to serve the Canadian public interest.

Further, Emera operates in both Canada and the US as discussed above. While Emera is listed on the TSX and is subject to Canadian reporting requirements, our largest affiliate, TEC, is subject to SEC reporting obligations and will therefore be required to report in line with the SEC's Final Rule. Emera currently requires all subsidiaries and affiliates to provide climate-related information to Emera for our annual consolidated voluntary sustainability reporting. Should final mandatory climate-related disclosure requirements come into effect that differ significantly from the SEC's Final Rule, both Emera and our subsidiary, TEC, would be impacted due to the burden of having to report under two different standards. This would result in increased complexity, inconsistency, and potentially increased resource requirements and costs. Emera notes that its position in this regard will not be unique among Canadian issuers. Additionally, Emera's investors are global in nature with many coming from the US and being accustomed to SEC reporting requirements. Requiring investors to consider one more difference in their evaluation of Canadian companies can only impede Canadian companies' competitiveness in their efforts to raise capital.

With this context in mind, Emera offers comments on three key areas of concern: Scope 3 GHG emissions reporting, scenario analysis reporting, and timing of reporting.

Scope 3 GHG Emissions Reporting

In our voluntary annual sustainability reports, Emera currently voluntarily discloses our Scope 1 and 2 emissions and partial Scope 3 GHG emissions (Category 3d and 11 under the GHG Protocol Scope 3 Standard). While Emera is supportive of continued reporting of partial Scope 3 emissions in our voluntary annual sustainability report, we suggest the CSSB remove Scope 3 GHG emissions from CSDS 2 requirements for reporting in general-purpose financial reports or other security filings for following reasons:

1. There is currently a lack of confidence in both Scope 3 methodologies and the availability of quality and reliable data from suppliers and vendors. This prevents investors and other stakeholders from making a meaningful comparison of Scope 3 disclosures given the wide-ranging estimation and assumptions that develop as a result. To the extent that the ISSB's (and, by extension, CSSB's) overarching objective is to provide material and decision-relevant information to investors, Emera respectfully submits that mandatory Scope 3 emissions disclosure does not meet this threshold, particularly when set against the significant time, cost and effort required to obtain and attempt to verify this data and the material potential litigation risks that issuers such as Emera would bear in respect of this disclosure.

2. The SEC's Final Rule has excluded the reporting of Scope 3 emissions. Given the capital-intensive nature of companies in the utility sector and Canada's significant interconnection with the US market, there is real competition for capital. As a Canadian reporting issuer, Emera believes Scope 3 disclosure requirements in Canada could put Canadian reporting issuers at a significant competitive disadvantage compared to our US peers. With Canadian companies including Scope 3 GHG emissions data it could appear to investors that these companies have higher overall GHG emissions which may draw more negative scrutiny. Additionally, Canadian companies will face a higher regulatory and compliance burden, including associated costs and resourcing, than our US peers.

Scenario Analysis Reporting

In our annual sustainability report, Emera currently voluntarily and broadly discloses on our use of qualitative scenario-analysis to inform our climate transition and adaptation work across our subsidiaries. While Emera is supportive of continued reporting of qualitative scenario-analysis in our voluntary annual sustainability report, we suggest the CSSB remove scenario-analysis from CSDS 2 requirements for reporting in general-purpose financial reports for the following reasons:

1. There is a lack of standardized guidance around conducting scenario analysis for our industry, including well-defined time horizons. This lack of standardization and lack of industry specific guidance would prevent investors and other stakeholders from making meaningful comparisons across peers.

2. As discussed above, as a Canadian reporting issuer we are generally concerned about comparability and consistency in climate-related disclosure requirements within North America. The SEC's Final Rule does not require any registrant to conduct scenario analysis. In the SEC's Final Rule, scenario analysis disclosure is only required if the registrant already uses scenario analysis for assessing the impact of climate-related risks and if the identified risks are reasonably likely to have a material impact on the business. Final Canadian standards should recognize the interconnected nature of the North American capital markets and consider the competitiveness of Canadian businesses that operate and compete for capital within it.

Timing of Reporting

Emera currently releases its management commentary (Annual Information Form (AIF) and annual Management's Discussion and Analysis (MD&A)) and voluntary sustainability report at different times in the year. Emera's MD&A and AIF are currently filed in February, while Emera's voluntary sustainability report is currently filed in May. We are concerned about the challenges associated with delivering our climate-related disclosures within our annual general-purpose financial reports for the following reasons:

1. There is an inherent trade-off between timeliness and accuracy of reporting of climate-related disclosures. We recognize that timeliness of this information is important, however this needs to be carefully balanced with ensuring that complete and accurate data is being disclosed in order for the information to be useful. At Emera, we have been releasing our sustainability report in May to allow more time to collect data to calculate corporate-wide sustainability metrics, in particular, GHG emissions. Our current focus is to allow subsidiary reporting against existing Canadian and US regulatory reporting requirements for GHGs disclosures to take place before we issue our sustainability report. This ensures that we report on final verified numbers rather than estimated figures thus enhancing the accuracy of this information.

2. Expedited reporting timelines to align sustainability reporting with financial reporting will require significant process changes and a higher volume of work during an already busy year-end reporting timeframe. This will greatly impact resourcing requirements and will result in higher costs.

3. As discussed above, as a Canadian reporting issuer we are generally concerned about comparability and consistency of climate-related disclosure requirements within North America. The SEC's Final Rule recognized the timing challenge discussed in (1) above by allowing registrants to delay disclosure of Scope 1 and 2 GHG emissions to the second quarter report for the year after the year to which the emission disclosures are

related. With Canadian companies reporting on GHG emissions data before US counterparts, it may be perceived to put Canadian companies at a competitive disadvantage.

Emera suggests the CSSB should modify the timing of reporting for GHG emissions to be reported in an entity's second quarterly management commentary, similar to the timing of the SEC's Final Rule. This would better balance the timeliness of reporting with having more complete and accurate GHG emissions data, which would result in more useful disclosures and better align with the reporting timelines of GHG emissions for US companies.

We thank you for this opportunity to comment on the CSDS Exposure Drafts. Should you have any additional questions or require any clarification, please do not hesitate to contact the undersigned via email at Greg.Blunden@emera.com.

Sincerely,

GBlunden

Greg Blunden
Chief Financial Officer, Emera Inc.

Enbridge
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June 10, 2024 **Submitted via online form**

To: Canadian Sustainability Standards Board (CSSB)

Re: CSSB Consultation on Adoption of CSDS 1 and CSDS 2 in Canada

Enbridge Inc. (Enbridge) appreciates the opportunity to provide comments to the CSSB on Canada's first proposed Canadian Sustainability Disclosures Standards (CSDS).

Enbridge is a leading North American energy infrastructure company with common shares listed on the Toronto Stock Exchange (TSX) and the New York Stock Exchange (NYSE). Headquartered in Calgary, Alberta, we operate an extensive network of liquids and natural gas pipelines, gas utilities and storage, and renewable energy assets across North America and in Europe. Enbridge is incorporated under the *Canada Business Corporations Act* and is currently a foreign private issuer in the U.S. for purposes of the *Securities Exchange Act of 1934*. As such, we are not required to file financial reports with the U.S. Securities and Exchange Commission (SEC), but we do so voluntarily. Accordingly, Enbridge is subject to continuous disclosure requirements in both Canada and the U.S.

Our perspective is drawn from our long and sustained history of voluntary disclosure of Enbridge's environmental, social and governance (ESG) performance. This year, we published our 23rd annual Sustainability Report which follows best practices in sustainability reporting, including alignment with the recommendations of the Task Force on Climate-Related Financial Disclosures (TCFD) and the Sustainability Accounting Standards Board (SASB) framework. Enbridge has also long followed the Global Reporting Initiative (GRI) standards. In 2019, we published our first TCFD-aligned climate report – and we provide updates in our annual ESG Datasheet, including discussion on each of the TCFD's four pillars (governance, strategy, risk management and metrics and targets), as well as disclosure of our Scope 1, Scope 2, and certain Scope 3 greenhouse gas (GHG) emissions.

At Enbridge, our goal is to be the first-choice energy delivery company in North America and beyond—for customers, communities, investors, regulators and policymakers, and employees. As a diversified energy company, we are uniquely positioned to help accelerate the global transition to a cleaner energy future. We are advancing new lower-carbon energy technologies—including hydrogen, renewable natural gas, and carbon capture and storage. In 2020, Enbridge was among the first within the energy midstream sector to establish emissions reduction targets. We are committed to reducing the carbon footprint of the energy we deliver, and to achieving net-zero emissions from our operations by 2050. We have made solid progress towards our ESG goals – during 2023, we achieved our goal to reduce the GHG emissions intensity of our operations by 35% from 2018 levels. To hold ourselves accountable for our performance, we have integrated our ESG goals into our enterprise-wide business plans, sustainability-linked financing and incentive compensation. It is in this spirit that Enbridge provides the following comments and recommendations for the CSSB's consideration.

Enbridge's Recommendations Regarding the CSDS

Enbridge appreciates the efforts of the CSSB, along with regulators and organizations in various jurisdictions, to work toward a global set of sustainability reporting standards. We are in favour or a disclosure framework that provides clarity and certainty for investors and companies alike and support the CSSB's goal of developing standards that facilitate a more consistent and comparable approach to sustainability reporting. At the same time, we are mindful of ensuring that appropriate modifications are incorporated, as required, to serve the Canadian public interest.

We submit the following recommendations, with a view to addressing Canadian-specific reporting needs. The rationale for each recommendation is discussed in more detail in the balance of our comment letter.

- Align reporting standards and mandatory requirements across jurisdictions to support comparability for investors and ensure interoperability for issuers. In particular, considering the highly integrated Canadian and U.S. economies and capital markets, it will be important to closely align with the final climate-related disclosure rules adopted by the SEC (SEC Rules), currently pending judicial review.
- Remove Scope 3 GHG emissions and scenario analysis from the required disclosures at this time or, alternatively, provide additional transitional relief, to allow for methodologies and standards to mature.
- To the extent reasonable assurance of data will be required, include appropriate transition relief to allow companies to establish and implement the associated systems and controls.
- Include safe harbour provisions, considering the inherent uncertainties of providing sustainability and climate-related disclosures at the granular level required by the CSDS.
- Allow companies additional time to provide their annual GHG emissions disclosures, to align with availability of accurate data (for example, the SEC Rules allow for GHG emissions data to be filed in the interim report for the second quarter).
- Include a clear and transparent mechanism to enable dual-listed issuers to follow a single set of climate-related disclosure rules, as opposed to requiring them to follow conflicting standards and requirements.

Ensuring Alignment and Jurisdictional Interoperability

As noted above, Enbridge has common shares listed on both the TSX and NYSE and is subject to disclosure requirements in both Canada and the U.S. We operate and have ownership interests in assets across North America and beyond– including a growing offshore wind presence in Europe. Accordingly, we are closely monitoring the development of climate-related disclosure rules and guidance in Canada, the U.S. and in other jurisdictions, including the United Kingdom and European Union.

The draft CSDS do not align with the SEC's final climate-related disclosure rules or with requirements being developed by the European Financial Reporting Advisory Group (EFRAG). Further, the CSDS do not currently contain a mechanism to allow interlisted issuers to follow either the Canadian or the U.S. rules (as opposed to being subject to two conflicting sets of requirements). Failure to include such a mechanism would result in unnecessary complexity, inconsistency, and diminished comparability for investors, as well as significant additional cost to issuers. We therefore recommend that the CSSB consider alternatives to allow companies to follow a single set of disclosure rules. There are various mechanisms by which this could be achieved. As an example, Canadian and U.S. securities regulators took a collaborative approach to resource extraction rules, whereby each jurisdiction adopted substitution or alternative reporting provisions which recognize disclosure in other jurisdictions that satisfies the same objectives.[1] Another example is the provision in U.S. securities rules that exempts foreign private issuers from the requirements to disclose executive compensation according to the requirements of Regulation S-K that apply to U.S. domestic issuers.[2] Alternatively, the CSDS could include an exemption provision for companies that comply with the rules of other jurisdictions to file or furnish climate-related information. For an example of such an exemption provision, see National Instrument 52-109 *Certificate of Disclosure in Issuers' Annual and Interim Filings*, specifically Part 8, which provides exemptions for issuers that comply with U.S. laws relating to CEO/CFO certifications.[3]

We appreciate the CSSB's recognition that amendments may be required in the Canadian public interest. In that regard, we note that the Canadian and U.S. economies are deeply intertwined, with a high level of integration in both economies and capital markets. This is particularly evident in the energy sector, where infrastructure such as pipelines and electricity grids span across the border, facilitating the seamless flow of energy resources between the two countries. Differences in securities regulations and disclosure requirements between the two countries can create significant challenges, particularly for Canadian companies that may find themselves at a competitive disadvantage if more stringent reporting requirements are adopted in Canada. These regulatory discrepancies can also lead to inconsistent information for investors, affecting their decision-making process. It is crucial for regulatory bodies in both countries to work towards harmonizing these regulations to maintain a level playing field and ensure clear, consistent investor information. In developing sustainability standards and disclosure rules for Canada, the CSSB and securities regulators must acknowledge that the SEC's final climate-related disclosure rules do not incorporate or closely align with the International Sustainability Standards Board (ISSB) standards. To best serve the Canadian public interest, Enbridge recommends that the components of the CSDS that are misaligned with the SEC Rules not be adopted, as discussed more fully below.

Scope 3 Emissions and Scenario Analysis

We recognize that certain stakeholders would like to see increased disclosure of Scope 3 GHG emissions – and Enbridge strives to be an industry leader in this area. Enbridge has tracked and voluntarily reported certain Scope 3 emissions since 2009 and we continuously work to enhance our approach. We currently report on Scope 3 emissions that we can confidently track, record, and calculate, including: utility customer natural gas consumption (category 11), employee business air travel (category 6), electricity grid loss (category 3) and fuel and energy-related activities (category 3). We also developed two Scope 3 metrics – one regarding the emissions intensity of the energy that we deliver and the other regarding our contribution to the avoidance of third-party emissions, through our investment in renewables, lower-carbon fuels and energy conservation programs.

Despite this progress, there remain significant challenges for reporting downstream emissions for midstream companies like Enbridge, as it would require the tracking of products – not owned or sold by us – that move on and off our system. We are currently unable to accurately and reliably track and measure this information. There are currently no widely accepted methodologies, guidelines, or standards in place for reporting on downstream emissions for our sector. As a result, companies cannot accurately delineate and determine their Scope 3 emissions, making this data inherently inconsistent, unreliable and potentially misleading. For these reasons, we

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[1] See, in the U.S., 17 CFR 240 13q-1(d) and in Canada, section 10 of the *Extractive Sector Transparency Measures Act*, S.C. 2014, c. 39, s. 376.
[2] 17 CFR 229.402 (Item 402) Executive compensation.
[3] National Instrument: NI-52-109 – Certification of Disclosure in Issuers' Annual and Interim Filings: https://www.osc.ca/en/securities-law/instruments-rules-policies/5/52-109/national-instrument-ni-52-109-certification-disclosure-issuers-annual-and-interim-filings.

believe it is premature to impose a requirement to report Scope 3 emissions information while standards are still evolving. To address this uncertainty, we continue to provide input to organizations developing guidance for the oil and gas industry and the midstream sector specifically, including serving on a technical advisory group to the Science Based Targets Initiative (SBTi), among other forums and frameworks.

We also note that the SEC Rules specifically exclude the requirement to disclose Scope 3 GHG emissions, due to questions about the current unreliability and robustness of the data associated with Scope 3 emissions[4]. Commenters noted that much of the data underlying Scope 3 emissions is in the control of third parties, which impacts the ability of registrants to collect complete data. In addition, the methodologies underlying the measurement and reporting of Scope 3 emissions are still too uncertain and unreliable to be decision-useful to investors.[5] Similarly, in its submission to the ISSB, the Canadian Securities Administrators (CSA) stated that it does not support mandatory Scope 3 emissions, recognizing the ongoing challenges in estimating upstream and downstream emissions.[6]

We acknowledge the CSSB's efforts to address these concerns by extending the transition relief for Scope 3 GHG emissions from one year granted by the ISSB to two years. However, even this extended timeframe is insufficient in order to allow methodologies, standards and guidance to mature and for companies to establish and implement the systems and frameworks required to report reliable data. If the CSDS continues to require disclosure of Scope 3 emissions, Enbridge submits that an extension of transition relief of three to five years would be required.

Similar to Scope 3 GHG emissions, there are significant challenges associated with scenario analysis at this time, including a lack of standardized assumptions, methodologies and timeframes. The CSDS requires detailed disclosure of qualitative and quantitative information, including, for example, the future availability of financial resources to respond to climate-related effects and other highly uncertain information. Until there is greater consensus around these issues, Enbridge recommends that disclosure of scenario analysis should remain voluntary. Individual companies are best-placed to determine the information that is valuable to their investors, given their specific circumstances.

For the reasons outlined above, Enbridge recommends that the requirement to report Scope 3 GHG emissions and scenario analysis be removed from CSDS, which would align more closely with the SEC Rules. If Scope 3 emissions remain a requirement, then additional transitional relief will be required (three to five years) to allow for methodologies and standards to mature so that the data is reliable, comparable and decision-useful. Further, due to the long-term and uncertain nature of certain information required by the CSDS, particularly while associated frameworks and standards are still evolving, Enbridge recommends that any mandatory disclosure requirements be accompanied by robust safe harbour provisions.

Disclosure Timeline for Emissions Data

The CSDS requires that companies disclose GHG emissions information concurrently with financial reports. Aligning the financial reporting timelines with emissions calculations and reporting will be challenging, given the complexity associated with compiling and verifying GHG data for the purposes of reporting to environmental

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[4] SEC adopting release: The Enhancement and Standardization of Climate-Related Disclosures for Investors; 17 CFR 210, 229, 230, 232, 239 and 249, May 6,2024, at p. 256.
[5] *Ibid*, at p. 229.
[6] CSA, submission to ISSB consultation on Exposure Drafts of IFRS S1 and IFRS S2, July 25, 2022: https://ifrs-springapps-comment-letter-api-1.azuremicroservices.io/v2/download-file?path=610_65025_canadian-securities-administrators-leissb-csacomments20220725vf.pdf.

agencies. Enbridge recommends that the CSDS be amended to allow for GHG emissions data to be filed in the interim report for the second quarter of the year, which aligns with the approach taken by the SEC,

Conclusion

We thank the CSSB for the opportunity to provide comments and welcome additional opportunities to further engage with the CSSB on this important topic.

Sincerely,
Enbridge Inc.

(Signed) "*Reggie Hedgebeth*"

Reggie Hedgebeth
Executive Vice President, External Affairs & Chief Legal Officer

Commentaires d'Énergir sur les normes canadiennes d'information sur la durabilité (NCID) S1 et S2

Le 10 juin 2024

Mise en contexte

Énergir, mobilisée dans la transition énergétique

Énergir et ses filiales constituent une entreprise diversifiée du secteur énergétique dont la mission est de répondre de manière de plus en plus durable aux besoins énergétiques de ses quelques 540 000 clients et des communautés qu'elle dessert au Québec et au Vermont. Principale entreprise de distribution de gaz naturel au Québec comptant plus de 10 milliards $ d'actifs, Énergir produit également, par le biais de coentreprises, de l'électricité à partir d'énergie éolienne. Par le biais de filiales et d'autres placements, l'entreprise est présente aux États-Unis où elle produit de l'électricité de sources hydraulique, éolienne et solaire, en plus d'être le principal distributeur d'électricité et le seul distributeur de gaz naturel par canalisation de l'État du Vermont.

Face au contexte de l'urgence climatique, Énergir a entrepris une transformation profonde de son modèle d'affaire à partir d'une vision ambitieuse de décarbonation. Concrètement, Énergir cible en priorité les émissions de GES de sa clientèle (émissions de portée 3) qui proviennent de l'utilisation du gaz naturel et met de l'avant des objectifs ambitieux de décarbonation : la réduction de 30% des émissions dans les bâtiments desservis par Énergir en 2030, ce qui devrait permettre d'atteindre leur carboneutralité en 2040, ainsi que la carboneutralité en 2050 de l'énergie distribuée. Quatre grandes orientations guident l'action d'Énergir dans cette transition :

- Accroître nos efforts en efficacité énergétique
- Développer une complémentarité forte entre les réseaux gazier et électrique
- Augmenter les achats de GNR dans notre portefeuille
- Se diversifier dans de nouveaux vecteurs de croissance durable

Depuis 2020, Énergir publie son rapport sur la résilience climatique selon les lignes directrices de divulgation du Task Force on Climate-Related Financial Disclosures (TCFD). Énergir est donc favorable à la formalisation des normes de divulgation sur la durabilité et le climat. Néanmoins, Énergir souhaite exprimer des préoccupations quant à certaines exigences et surtout, quant à l'application des dispositions de ces nouvelles normes. Ces commentaires sont regroupés en trois sections. Enfin, Énergir souhaite faire part de son ouverture à collaborer avec le Conseil canadien sur les normes d'information sur la durabilité (CCNID) dans la mise en œuvre de celles-ci.

Informations significatives et périmètre organisationnel

Énergir comprend que l'objectif des normes est de récolter de l'information financière significative en matière de durabilité et climat. Cela dit, cela soulève plusieurs questions sur l'approche à utiliser pour arriver à cette fin.

Énergir détient, directement ou indirectement, plusieurs filiales. La divulgation strictement financière (rapport financier) qui est faite actuellement présente l'information consolidée (*i.e.* pour les filiales où l'entité mère exerce un contrôle). Énergir comprend que les informations jugées significatives sur les risques et les possibilités en lien avec la durabilité et le climat complèteront son rapport de gestion et qu'elle devra :

- Fixer son propre seuil d'importance relative puisque les normes ne le fixent pas (B19) et ce, indépendamment du seuil utilisé pour la divulgation purement financière dans les états financiers et dans le rapport de gestion.
- Prendre à la fois des facteurs quantitatifs et des facteurs qualitatifs (B21) pour identifier les informations significatives.
- Procéder à une estimation financière de ces risques et possibilités, et donc qu'il s'agit d'une « matérialité » financière.
- Divulguer de l'information pour des risques et possibilités pour lesquels Énergir ne serait pas en mesure d'évaluer précisément l'impact financier ou qui présenteraient une matérialité financière très faible, si Énergir juge que l'impact d'un point de vue qualitatif serait important.
- Divulguer pour les horizons court, moyen et long terme relativement à ces risques et possibilités.
- Prendre en considération les caractéristiques des utilisateurs et le contexte de l'entité (B16) pour évaluer l'importance relative de ces informations.

En outre, la norme nous indique que : « L'entité n'est pas tenue de fournir des informations qui seraient autrement exigées par une NCID si elles ne sont pas significatives. Cela s'applique même si la NCID dresse une liste d'obligations d'information spécifiques ou minimales. (B25) »

Ainsi, à la lumière de ces informations qui sont des balises générales à la fois contraignantes et souples, Énergir s'interroge sur différents aspects de leur application, par exemple quant à l'intégration des filiales significatives ou quant à l'approche de matérialité, *i.e.* soit une matérialité simple (financière) ou une double matérialité (financière et à impact).

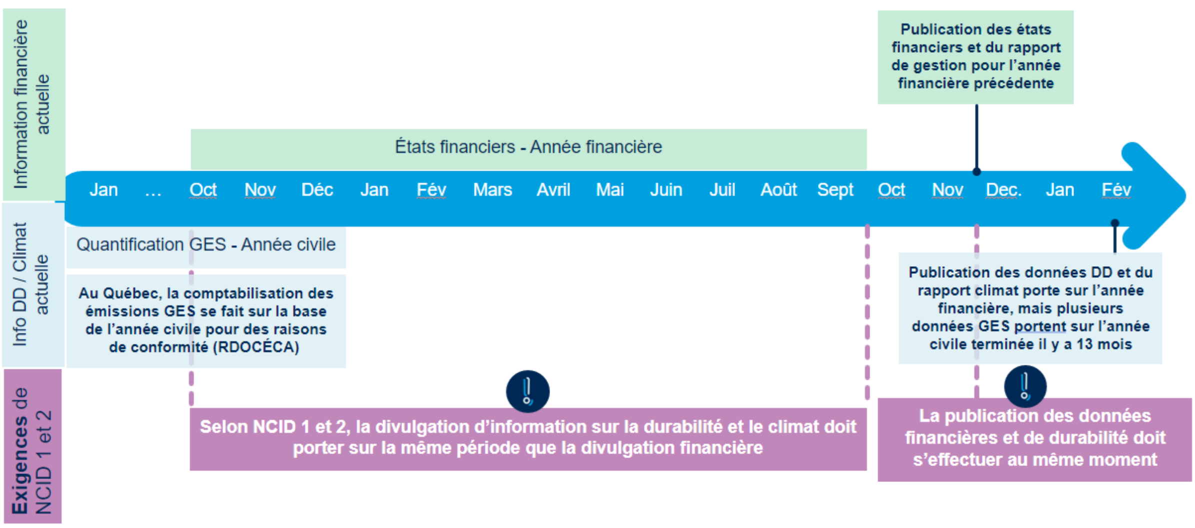
Compte tenu de ces balises générales, Énergir recommande que le CCNID élabore des guides, méthodes et outils pour faciliter le processus de divulgation pour les entreprises.

La période couverte et le moment de la communication

Selon les normes, les informations financières à fournir en lien avec la durabilité et le climat de l'entité doivent porter sur la même période de présentation de l'information financière.

L'année financière d'Énergir commence le 1er octobre et se termine le 30 septembre et les informations financières sont publiées en novembre. Pour les gaz à effet de serre (GES), l'ensemble des divulgations en vertu du Règlement sur la déclaration obligatoire de certaines émissions de contaminants dans l'atmosphère (RDOCÉCA) au Québec et de la règlementation fédérale sont établies sur la base d'une année civile (janvier à décembre). Ceci est conforme et cohérent avec l'ensemble des accords internationaux sur le climat. Énergir produit un rapport sur la résilience climatique selon les lignes directrices du TCFD, ce dernier étant publié en février. Une partie des informations de ce rapport portent sur la même année financière que les états financiers, alors qu'une autre partie des informations, notamment des émissions directes de GES, portent sur l'année civile complète précédant la fin de l'année financière compte tenu des exigences de déclaration du RDOCÉCA. Le schéma suivant représente les différents cycles de déclaration et les exigences des NCID et montre les enjeux que posent les exigences des normes en matière de moment de la communication et de période couverte dans notre contexte.

Situations de divulgation d'information actuelle et prescrite selon NCID



Cependant, pour une partie de l'information climatique à savoir les émissions directes et indirectes liées à l'énergie, la période couverte pourrait poser un enjeu pour Énergir. En effet, pour être pleinement conforme à la norme, Énergir entrevoit que cela pourrait lui imposer le déploiement de coûts et d'efforts très importants. Dans le contexte d'opération d'Énergir, il y a des défis importants liés à l'obtention des données à la validation de celles-ci, surtout si Énergir finissait par devoir mener en parallèle deux comptabilités GES distinctes : une pour satisfaire aux exigences règlementaires en vigueur et une pour satisfaire aux exigences de la norme S2.

À propos du système de gestion de l'information des émissions de portées 1 et 2 d'Énergir

Le système de collecte et production de l'information climatique d'Énergir, particulièrement les émissions directes, repose sur une vaste campagne annuelle de collecte, de production de l'information et de vérification, qui s'étale sur plusieurs mois. De nombreuses étapes sont requises pour compléter les déclarations au RDOCECA (audit, validation des données, vérification des calculs provenant des consultants, validation et suivi avec le MELCCFP, etc.) En outre, chaque filiale a sa propre méthode.

Méthodologie

En corollaire avec les interconnections possibles avec les divulgations obligatoires, Énergir se questionne également sur l'arrimage potentiel entre le GHG Protocol et les méthodes de quantification prescrites par les autorités règlementaires.

Le paragraphe 29 a) ii) de la NCID indique que l'entité doit mesurer ses émissions de GES conformément au GHG Protocol, « à moins d'être tenue de les mesurer selon une méthode différente par une autorité territoriale ou une bourse à laquelle elle est cotée (voir paragraphes B23 à B25) ».

En vertu du GHG Protocol, la compréhension d'Énergir est que les méthodes prescrites par une instance gouvernementale pourraient être reconnues. En effet, le GHG protocol prévoit que « *Companies should use the most accurate calculation approach available to them and that is appropriate for their reporting context.* (GHG Protocol, p. 42)

En conséquence, Énergir en comprend que les émissions assujetties au RDOCÉCA pourraient continuer d'être déclarées selon le RDOCÉCA alors que les autres émissions non assujetties au RDOCÉCA pourraient reposer sur les guides du GHG Protocol, ou toute autre méthodologie instaurée par une autorité territoriale.

Énergir recommande que le CCNID précise de façon explicite l'application de la norme S2 considérant la présence de règlementation en vigueur au Canada et dans chacune des provinces où une règlementation spécifique concernant les émissions de GES est également en vigueur.

Dans l'éventualité où la méthode RDOCÉCA serait reconnue dans le cadre des NCID, cela permettrait, pour Énergir de continuer à déclarer ses émissions de GES selon la période prescrite par le RDOCÉCA (enjeu soulevé précédemment).

Conclusion

La formalisation des NCID S1 et S2 soulève plusieurs enjeux quant à leur applicabilité en pratique et dans le contexte spécifique d'Énergir, ce même si Énergir effectue une divulgation ESG et climatique depuis plusieurs années déjà.

Malgré ces défis, Énergir entrevoit positivement la formalisation des NCID S1 et S2 qui viennent renforcer le positionnement qu'elle a choisi depuis plusieurs années. En effet, Énergir considère les enjeux de durabilité et climatiques comme essentiels à la fois à sa propre viabilité financière à long terme, ainsi qu'à la transition à laquelle le vaste défi des changements climatiques nous convie. Concrètement, Énergir assume ses responsabilités à l'égard de ses propres opérations, mais aussi à l'égard de l'énergie qu'elle distribue pour ses clients à qui elle offre un soutien dans le processus de décarbonation.

May 28, 2024

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 Energy37 Consulting Inc., (Energy37) we appreciate the opportunity to provide feedback on the proposed modifications to the IFRS Sustainability Disclosure Standards as they pertain to Canada, i.e. the *Canadian Sustainability Standards Board* (CSSB) Standards.

I have a private consulting firm and work as well as a Senior Partner in a Consulting Organization operating in North America, Europe and the Middle East. My organization is heavily engaged with the Energy Industry and have been working closely with Energy Associations, businesses in technology, health care, airlines and energy, on developing robust and meaningful ESG strategies and initiatives that promote the overall benefits of ESG for the long-term benefit of the industries, the one atmosphere planet, and all communities and staff employed by energy producers and user companies.

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 Energy37'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.

The oil and gas industry provides energy that is:

1. reliable (24/7)
2. secure (home-grown)
3. cost effective (affordable)
4. versatile (multi-use)
5. Scalable (used globally)
6. A high-density source of energy for the world. This has resulted in a higher standard of living with a longer average human life span. The oil and gas industry are very actively involved in decreasing emissions every day through research and technology. The world cannot develop new technology without the financial assistance and technology provided by the engineers and scientists working in oil and gas industry.

<u>As these DRAFT documents are written, they create uncertainty; are prejudicial against the oil and gas industry and are significantly written to favour wind and solar renewables investment.</u>

The result will be a decrease in any future investment not only in oil and gas, but also in ANY new energy technology and any improvement in emissions reductions/efficiencies, due mainly to lack of financial strength.

These DRAFT documents as written will result in the decrease in the standard of living globally due to much higher future energy prices, create future energy unreliability, and a resultant decrease in business activity globally. History has proven this to be true so far.

These DRAFT documents will prevent future expansion of clean technology as there will not be the financial engine available to finance the R&D that is continually needed.

ALL forms of energy are needed in the future, and should be treated equally and fairly. These DRAFT documents are anything but fair and equitable.

Having been involved in this ESG scenario for many years. I know that scope 3 is the next phase of your review. In my email, is included a document sent to IFRS regarding Scope 3 emissions when the public was allowed to comment.

There is still significant variance in the various Standards that have survived to date, as every six months there are changes in the "standards reporting system". Until ONE standard is created, that is fair and equitable to ALL industries, there will be constant unreliability in reporting and an unwillingness to invest in Canada. The result is a much slower economic activity in Canada compared the alternative USA, as well as a higher cost of living, higher energy prices, less investment in Canada, and a lower standard of living in Canada. All of which is unnecessary.

I have attached a document titled ***"imc1973_critique-problems_IFRS-FINAL_July22-2022-IanMcConnell"*** submitted to the IFRS regarding scope 3 emissions, as they will also be coming down the pipeline, at some time in the future once scope 1 and 2 standards are finalized to your satisfaction. I hope the results are fair and equitable to all industries such they the value brought by each industry is clearly understood and as well, the *unintended consequences* of these new standards are understood and taken into consideration for the benefit of society. Canada is in a unique geographical/climate location with significant environmental opportunity to decrease global emissions, by providing clean energy to the world. This will only happen if fair and equitable standards are created.

Thank you for considering my feedback on this important matter.

Sincerely,

Ian M. McConnell

Ian M. McConnell.
President,
BSc. Adv. Land Use & Environmental Studies. RRTC. ISSP. RNG.

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International Sustainability Standards Board (ISSB)
Columbus Building
7 Westferry Circus
Canaray Wharf
London, E14 4HD

SENT TO: commentletters@ifrs.org

RE: [Draft] IFRS S1 General Requirements for Disclosure of Sustainability-related Financial Information & [Draft] IFRS S2 Climate-related Disclosures

Dear ISSB and Mr. Faber,

I appreciate that both individuals and organizations have the opportunity to present their perspectives as part of the regulatory process. So thank you for opening this process for SME stakeholder comments.

Too often highly impactful legislation is crafted to satisfy a political agenda rather than ensuring that real and measurable success is made on ESG using hard data and science, rather than opinions and biased perspectives that deliberately ignore inconvenient facts.

I am an individual whose formal education includes a *BSc. Adv. Land Use and Environmental Studies as well as a Renewable Resources Technology diploma*. I have worked both in the forestry industry in Canada and the oil and gas industry globally for forty years. I am significantly engaged in the Energy Industry and have been working closely with Energy Associations on developing robust and meaningful ESG strategies for the long-term benefit of the industry, the country, the planet as a one atmosphere entity. Targeting one industry in developed countries does NOT solve the global problem of one atmosphere. In fact, it acerbates the problem significantly.

In general, I have concerns with regard to clarity, metrics, interpretation and fairness such that all industries are treated in a similar manner. No specific industries should be targeted and unfortunately as it is written, the way this document is worded, the oil gas industry is unfairly treated. This document is prejudicial against the oil and gas industry, and I believe would be successfully challenged in court.

Issues of Clarity

It is unclear how these standards will blend with existing ESG reporting and what size of entity will be compelled to undertake this reporting.

It is unclear what level of detail is required in many of the sections. For example, in question 1 "overall approach," it first states that only significant sustainability-related risks and opportunities information will be required, but goes on to say that "all of the sustainability-related risks and opportunities to which the entity is exposed, even if such risks and opportunities are not addressed by a specific IFRS Sustainability Disclosure Standard," are what is required. There is a large gap between "significant" and "all". Furthermore, ISSB Chair Emmanuel Faber has said on multiple occasions that entities will be able to "pick and choose" what is necessary to report. This contradicts what is actually in the draft disclosures and contravenes the proposed statement of compliance.

It is not clear why the standards have been separated into S1 and S2, particularly when there is a stated goal to avoid repetition and duplication. I am also concerned about fair presentation when it expands to "additional disclosures" such as the industry-based SASB standards, ISSB's non-mandatory guidance and "recent pronouncements of other standard-setting bodies." It is unclear what precisely is required and what will be considered material by financial institutions which could be used for litigation purposes.

The choice of identifying other disclosures is left to an entity, which is subjective and makes it unclear what auditing standards will be established.

It is unclear how these standards will help banks, insurers, or investors gauge the profitability of an entity or to assess "enterprise value," except to make it clear which entities could be downgraded because they could be held financially liable for any perceived misstatement on emissions, future scenarios, future global developments, future unpredictable weather events, the behaviors and actions of those who use an entity's products, and any "controversial" press that might be generated by those who seek the demise of certain industries.

Issues with Metrics

It is not clear which metrics auditors will use in their judgements.

S1 and S2 seem to be focused on the "risks" rather than the "opportunities" of business activity. I believe that energy security, technological innovation, and geographical and geopolitical stability should be more fairly weighted.

With respect to "disclosure objectives," since every entity will have its own unique method of evaluating metrics, targets, progress, and outcomes, it is unclear how these will be fairly compared by auditors.

Scope 3 emissions are not reasonably possible to accurately estimate for accounting purposes. It would be an onerous burden to require constant monitoring of every interaction and relationship along the value chain and be responsible for it. It is also unreasonable to ask an entity to take into account the end use of its products. Therefore, we request that **mandatory Scope 3 emissions be removed from this accounting standard.**

The requirement for "scenario analysis" is devastatingly costly in time and money for any company. There is the significant cost for additional analysts, auditors, and legal teams to assess the analyses and Scope 3 reporting, with little benefit to an entity.

It seems that gross emissions are quantified while offsets are buried within the qualitative section "Transition plans." There is a need for double column accounting to clearly illustrate net emissions as part of national net-zero plans. It is baffling that an accounting standard does not include space in a clear manner to quantify gross and net emissions, not to mention, biased and prejudicial against the oil and gas industry.

It seems problematic to represent gross emissions using CO2 equivalent and calculated in a one-hundred-year time horizon of global warming potential values.

How will connected information be audited?

Issues of interpretation

On the issue of "Materiality," this is a vague definition and its interpretation is open to abuse. "Omitting, misstating or obscuring" information may happen unintentionally. There is no provision in this section for unintentionality, which could expose an entity to litigation.

It is clear from the industry-specific standards that some industries are treated more favorably than others, and it is unclear if auditors will examine and interpret these standards equitably across industries since a great deal of the information to be provided and interpreted is subjective. Such subjectivity ought not be embedded in an accounting standard.

I have serious concerns about how this information will be assessed and appraised by financial institutions, insurers, and investors. Will this information be assessed by a third-party rating or scoring agency? What criteria and weighting will be used in appraising this information? There are significant privacy and proprietary issues that would need to be considered if this is the case, as well as enforceable transparency in any decisions made to deny financial or insurance products to an entity based on this reporting.

There are limits to the benefits of "digital reporting." Although it is possible to create digital tags that are comparable for quantifiable data. How is it proposed to digitally tag qualitative information?

I ask that you please accept and seriously consider my above suggestions as well as my specific concerns for IFRS-S1, IFRS-S2, and Appendix B11/12/13/14 as outlined in the following pages.

IFRS 1 - Critique

Paragraph 1
I would like to make it clear that "sustainability risks and opportunities" include energy security (traditionally defined as reliable, affordable, and secure), political stability of the geographical area of operations, stringent regulatory environments in specific geographical areas and its corollary lax regulatory environments, CCUS, and carbon technologies.

Paragraph 2
I ask that the word "all" be struck from this paragraph because it is redundant and vague.

Paragraph 6(c)
Given the current cancel culture of politically motivated smear campaigns, I do not feel that "reputation" or "controversies" should be considered as a metric. It is too subjective and is not relevant to our mission, or if reputation is to be measured, I ask that it is a company's customers who are surveyed and that political and social agendas are not used as metrics.

Paragraph 28
I ask that metrics take into account energy security, political stability of the geographical area of operations, the stringency of regulatory environments, and carbon capture technologies.

Paragraph 40 & 40(a)
I ask that the word "all" be struck as in paragraph 2, and ask that value-chain reporting not include data on the business practices of all of a company's suppliers. This is onerous and outside the scope of our business purpose.

In 40(a) I ask that energy security and security of geography (geological and political) be explicitly added to the statement about disruptions to supply chains.

Paragraph 53
I ask that this paragraph be struck from the draft because it is unclear who or what body will be judging whether or not an entity has been correct or adequate in using its "judgement in identifying the listed disclosures." Again, I believe that judgement might be unreasonably and unfairly political or social in nature, rather than focused on a company's mission statement and the needs of its customers.

Paragraphs 56-62
I ask that "unintentional" be inserted in the description of omitting, misstating or obscuring information. I also ask that information relating to "activities, interactions, and relationships and to the use of resources along the entity's value chain" be removed. This is an unnecessary burden of monitoring along a value chain. How is it to be done and at what cost? Investors ought to be concerned about the layering of expenses required for this level of compliance, and for what ultimate purpose that can't be met by existing ESG reports?

Paragraph 66-71

I ask that frequency of reporting should not include interim reporting as the current requirements are already burdensome. This would only add another layer of expense and bureaucracy.

Paragraph 76

Please define "relevant" information. Please explain "comparable" information. If each entity devises its own set of metrics or system of reporting, how will that be comparable?

Paragraph 78

This is not clear. What does it mean to make an integrated disclosure? It seems to imply that we should make separate disclosures even though the draft states "an entity shall avoid unnecessary duplication."

Paragraphs 79-82

I ask that a company not have to report on "possible future events that have uncertain outcomes" unless they are of very high-probability and high-impact. For what purpose is it a requirement to disclose assumptions about the future? How will assumptions be assessed across entities and industries?

Paragraph 91

I ask that a statement of compliance be removed.

Appendix A "Value Chain"

I want to clarify that all industries will have to disclose end-of-life data. Also I would like to include energy security, clearly defined as reliable, secure and affordable, as part of the geographical and geopolitical environment.

Please add to definitions: Controversies, comparable, energy security (traditionally defined as affordable, reliable, secure supply), geopolitical stability, relevant, significant.

Appendix B "Effective Date"

There should be an ample phase-in period of eight years (1 January 2030) for which to adjust to all of the new required information.

Appendix C "Qualitative Characteristics"

Paragraphs C4-C7

The discussion concerning the "predictive value" of this information is highly speculative and open to interpretation.

Paragraph C8

"Unintentional" needs to be added to any discussion of materiality.

Paragraphs C9-11

All material information necessary for understanding risk or opportunity is subjective and open for interpretation or abuse by regulators, auditors, or potential litigants.

Paragraph C12
"Neutral depiction" sounds good in theory, but how will this be judged in practice? Will different industries be held to the same level of assessment? Who will audit the auditors? Will these disclosures be "weighted" by those who use them, and if so, how?

Paragraph C14
Who will be determining the appropriate level of prudence offered by an entity?

Paragraph C17 (b) Comparability
Whilst it may seem appropriate to compare entities within an industry, there also needs to be a comparison across different subsets of an industry. For example, it is not enough to compare one hydrocarbon company with another, it is also important to compare a hydrocarbon company with a wind turbine operator or a solar installation operator since those are competing for similar investors, financial institutions, and insurers. Investors need to be aware of the similarities and differences between different energy providers based on the same metrics. It is unclear if these standards will do that.

C21-24 "Verifiability"
Who will be considered "knowledgeable and independent observers"? Which consensus, precisely, will be acceptable? By exposing possible proprietary information through the disclosure of assumptions and methods of producing information, it could have the unintended consequence of a form of corporate espionage and hurt the financial operating position of entities.

C26-33 "Understandability"
Avoiding duplication is difficult with these standards because they also require incorporating reference to and application of other standards and requirements that request similar information. Complex information is difficult to present and some latitude must be given for unintentional exclusion of information that others may determine is important. Please clarify how exactly sustainability-related risks ought to be linked to the financial statements.

*

IFRS 2 - Critique

Paragraphs BC21-BC22
I disagree with the objective of the Exposure Draft and the entire rationale for these standards. Financial institutions and investors already have the most important information at hand from corporate ESG reporting. Therefore, since it is unclear if ESG reports will still be required, this is but another layer of expense with little gain for investors. Nevertheless, if governments will compel implementation of these standards, then this is our feedback on the content of these standards.

Paragraph 5
I do not agree that it is important or relevant to single out the body or individual within a company when it comes to oversight of climate-related risks and opportunities. I would prefer and believe it is more relevant, to be held accountable as a company.

Paragraph 6
An entity is instructed here that it "shall avoid unnecessary duplication," yet it is unclear if an entity will have to provide an ESG report based on other metrics and then also have to fill out the ISSB reports for financial institutions. Will this not be a duplication of information?

Paragraph 9
I do not agree that the proposed requirement to consider the applicability of disclosure topics in the identification and description of climate-related risks and opportunities will lead to improved relevance and comparability of disclosures. The disclosure topics are inequitable across energy industries. Renewables are treated more favourably and less stringently than hydrocarbons. For example, why is it that solar and wind operators only have to submit their nameplate ratings and do not have to disclose the amount of electricity they actually produce and contribute to the grid, yet other electrical utilities must disclose actual energy produced? In addition, one of the main contributors to the material cost and emissions of a windmill is its concrete foundation, yet Appendix B45 states that the foundation is excluded from the material and emissions data required from a wind developer and/or operator. This is prejudicial and inaccurate.

Scope 3 emissions should not be considered. Certain elements within scope 3, such as end-of-life considerations of assets (decommissioning and recycling/disposal of spent equipment) should be taken into account separately as part of the value chain and not under Scope 3. See more on Scope 3 in our comments for paragraph 21(a)(i).

I disagree with the inclusion of "reputational considerations" under Climate-Related Risks and Opportunities or in any of these standards. The use of "controversies" or "reputational considerations" is open for abuse and manipulation and is not a neutral metric.

Paragraph 12(b)
I request this clause be rewritten to include geopolitical risks along with climate-related risks as the uninterrupted availability of energy sources at an affordable price in a politically stable geographic region is relevant to scoring on resilience which would include geopolitical conflict.

Paragraph 13 & 13(b)(iii)
In paragraph 13 I would like to add carbon technologies and CCUS.
In paragraph 13(a)(i)(1) critical assumptions for legacy assets need to specify the environmental impacts of decommissioning wind turbines, solar panels, and batteries. Is it possible to recycle those materials? What is the cost of recycling those materials? What is the cost of disposal? How will the materials be disposed?
In paragraph 13(a)(ii)(3) We request (3) is struck. Indirect adaptation is an unreasonable burden for entities to quantify and be responsible for.

In paragraph 13(B)(iii) We request that (2) is struck. Third-party verification or certification schemes are rife with corruption and would be another unnecessary added expense.

Paragraph 14
It is unclear how climate-related risks will be or can be differentiated from the overall risk analysis an entity already undertakes, and is obligated to disclose under the SFRS S1 standards. Would this not be a duplication of reporting?

Paragraph 14(c)
I wish to confirm that all energy industries will be required to account for asset retirement, including renewables. This is not clear from the industry appendices.

Paragraph 15
I request that climate-related scenarios not be included as they are prohibitively expensive, biased in favour of worst-case outcomes and best-guesses, and will not provide adequate benefits of information on an entity's strategic resilience to climate change. The costs outweigh the benefits.

Paragraphs 16-18 "Risk Management"
Rather than an alignment, this is an unnecessary duplication of the Risk Management in paragraphs 25 and 26 in IFRS S1. It is unclear how "climate-related risks" are different from the criteria used for "sustainability-related risks".

Paragraph 21(a)(i)
Scope 3 emissions are a major global societal issue; companies cannot solve these nor be fully accountable for them on their own, and there is no clear accepted means for preventing double-counting. **I ask that they not be included.** End-of-life asset disposal ought to be removed from Scope 3 emissions counting and be considered separately.

Paragraph 21(c)
Under physical risks, I would like to include geopolitical resilience including the financing, geographical, geopolitical and regulatory environments in which a company operates.

Paragraph 21(g)
I request that executive management remuneration be removed from consideration.

Paragraph 23
I disagree with entity targets being compared with arbitrary international targets. If these targets are included, then I disagree with third party validation.

Paragraphs BC149-BC172
I do not agree with the inclusion of Scope 3 emissions. There are other environmental risks besides "carbon" that seem to not be taken into account, particularly with reference to renewable energy. I disagree that the GHG protocol be the mandatory accounting and reporting

standard. Standards and accounting practices continue to evolve and by making one protocol mandatory precludes the opportunity for evolution and improvement in GHG accounting and reporting.

Appendix A
I ask that carbon storage and carbon utilization be included in the definition of carbon offsets; under climate-related Risks -- physical risks, I ask that, geopolitical resilience be included, and that energy security also be included as a defined term.

Closing Remarks
I thank you for considering my comments and ask that you also consider the following overall concerns about our global collective future.

I am aware that certain political and social agendas have begun to appear in shareholder proposals such as: decommissioning assets and ceasing to provide finance to traditional energy companies; alignment of bank and energy company business models solely to specific climate scenarios; changing articles of association or corporate charters to mandate climate risk reporting or voting; setting absolute scope 3 GHG emission reduction targets; and directing climate lobbying activities, policy positions or political spending. I feel these agendas run counter to a company's long-term ability to maximize durable financial returns because they micromanage the board and management through unduly prescriptive and constraining expectations. A single company does not have the power to rapidly transition the whole economy to net-zero, and pushing a company in this direction is more likely to create an unsustainable, insecure, and unaffordable energy supply which will not be in line with the needs of customers, investors, lenders--society as a whole, nor the IEA's or the UN's call for a just and fair transition.

This is not how we as a society want to do business: putting political and social agendas over that of our standard of living needs.

Political decisions with respect to net-zero by 2050 have been made, and I acknowledge to being part of a decades-long, low-risk transitional period in which companies will do their very best to create durable returns while providing Canadians with smart, secure, sustainable and affordable energy options that are in accordance with a productive and reliable living standard. Clearly, it is highly significant that the ISSB's new reporting structure be consistent, comparable, fair and reasonable across all industries, including oil and gas.

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<u>Appendix B11 (O&G Exploration and Production) DRAFT Standard</u>

EM-EP-110a.1
I ask that gross Scope 1 emissions are not calculated using Global Warming Potential (GWP) values. This is a controversial, faulty, and highly problematic calculation. I disagree that the

Greenhouse Gas Protocol be the sole methodology for calculating Scope 1 GHG emissions. I suggest "comparable" methodology be used instead. It is unclear what precautions will be taken to avoid double counting of emissions throughout the value chain. I disagree with the separation of gross Scope 1 methane emissions from overall GHG emissions accounting. I request the inclusion of a quantitative metric for *net emissions* based on purchased carbon offsets, technological or natural based carbon capture and storage, or other means of reducing greenhouse gas emissions, which may include voluntary emissions limiting processes not covered by a governmental program. It is vague and insufficient to state "gross emissions emitted into the atmosphere before accounting for offsets, credits, or other similar mechanisms that have reduced or compensated for emissions." It is unclear if direct carbon capture, storage and utilization would be included in this definition. This can be rectified by having the quantitative metric for net emissions displayed with equal prominence beside gross emissions.

EM-EP-110a.3 4.1.5
I ask there be a clear delineation between gross fugitive emissions and net fugitive emissions, meaning those that are individually found and fixed to make emissions near zero are identified and highlighted rather than solely focusing on gross fugitive emissions.

EM-EP-140a.1 3, 4, 5
I disagree with the inclusion of identifying the location of activities based on the World Resources Institute Water Risk Atlas Tool and designation of "High or Extremely High Baseline Water Stress"; it should NOT be included. Such an identification lacks context and could give the wrong impression to banks, insurers, and investors about some activities. The current operations, wherever they are located in Canada and the United States, must comply with stringent local regulations concerning water draws, use, and disposal. This is not conveyed with this metric, therefore this metric could be misinterpreted, misunderstood, and be open for abuse. I request this requirement be removed.

EM-EP-140a.2 5
I ask that context be provided here to indicate the baseline amounts of hydrocarbons naturally occurring in the water and what the acceptable limits or allowable concentrations are in the operating jurisdiction. Such gross numbers can be misleading and misinterpreted without the appropriate context.

EM-EP-420a.1 2
I disagree with the requirement for scenario analysis. If they are mandated despite my disagreement, I have that it not be limited to using the IEA WEO as the sole provider of future estimates and scenario analyses. Some of these analyses suggest extremely unlikely alarmist futures.

EM-EP-420a.1 5
I am concerned that by including reference to "regulatory environment" and "end-use of the entity's products" our contributions to national energy security – defined as reliable, affordable, secure energy – will be compromised. With respect to "regulatory environment", a company

could very well be penalized for operating and having reserves in geographical regions that have existing or potential stringent environmental standards because it would be considered a risk. Whereas, a company operating in regions with lax environmental standards would be viewed more favorably and its investments considered an opportunity. As for "end-use of an entity's products", this is incredibly difficult to quantify currently, let alone for the future when new technologies may develop that require the use of our products in a zero-emissions way.

EM-EP-420a.2
I request this be stricken from the Standard. We believe the way reserves are presented here they would be considered a liability rather than an asset. Including gross *potential embedded* emissions of reserves is not only irrelevant because simply having reserves does not mean they will be used in the future in such a way that those emissions will find their way into the atmosphere, including them would also jeopardize North American and global energy security. Including such is highly prejudicial against the oil and gas industry.

EM-EP-420a.3
I request that investments in carbon capture, storage, utilization or other emissions reduction technology be included here on an equal basis with renewable energy. Will NOT having these investments affect a hydrocarbon company's access to financing or its overall rating? I disagree with the requirement that only 3rd party certified renewable energy permits are acceptable. This is an additional expense on top of already considerable costs of compliance.

EM-EP-420a.4
As with EM-EP-420a.1 5, I am concerned that our operations will be defunded in jurisdictions that have a stringent regulatory environment. We are concerned that there seems to be no acknowledgement of geopolitical developments, geopolitical or geographical stability, or energy security within these metrics. Furthermore, predicting future price and demand is a complex endeavour fraught with risk and uncertainty. We are concerned about potential liability with respect to forward-looking predictions. Ultimately, there needs to be a balance between potential future regulatory policies and the need for affordable, reliable, secure energy for the well-being of citizens and nations.

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<u>Appendix B12 (O&G Midstream) DRAFT Standard</u>

EM-MD-110a.1
I ask that gross Scope 1 emissions are not calculated using Global Warming Potential (GWP) values. This is a controversial, faulty, and highly problematic calculation. I disagree that the Greenhouse Gas Protocol be the sole methodology for calculating Scope 1 GHG emissions. I suggest "comparable" methodology be used instead. It is unclear what precautions will be taken to avoid double counting of emissions throughout the value chain. I disagree with the separation of gross Scope 1 methane emissions from overall GHG emissions accounting. I request the inclusion of a quantitative metric for *<u>net emissions</u>* based on purchased carbon offsets,

technological or natural based carbon capture and storage, or other means of reducing greenhouse gas emissions, which may include voluntary emissions limiting processes not covered by a governmental program.

EM-MD-110a.2 4.1.5
I ask there be a clear delineation between gross fugitive emissions and net fugitive emissions, meaning those that are individually found and fixed to make emissions near zero are identified and highlighted rather than solely focusing on gross fugitive emissions. I request the inclusion of "opportunities" in this section to include investments in carbon capture, utilization or other emissions reduction technology. I request recognition of the vital role our entity plays in energy security – providing reliable, affordable and secure energy—for North America and globally.

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Appendix B13 (O&G Refining and Marketing) DRAFT Standard

EM-RM-110a.1
I ask that gross Scope 1 emissions are not calculated using Global Warming Potential (GWP) values. This is a controversial, faulty, and highly problematic calculation. We disagree that the Greenhouse Gas Protocol be the sole methodology for calculating Scope 1 GHG emissions. I suggest "comparable" methodology be used instead. It is unclear what precautions will be taken to avoid double counting of emissions throughout the value chain. I disagree with the separation of gross Scope 1 methane emissions from overall GHG emissions accounting. I request the inclusion of a quantitative metric for *net emissions* based on purchased carbon offsets, technological or natural based carbon capture and storage, or other means of reducing greenhouse gas emissions, which may include voluntary emissions limiting processes not covered by a governmental program.

EM-RM-110a.2. 4.1.5
I ask that there is a clear delineation between gross fugitive emissions and net fugitive emissions, meaning those that are individually found and fixed to make emissions near zero are identified and highlighted rather than solely focusing on gross fugitive emissions.

EM-RM-140a.1 3, 4, 5
I disagree with the inclusion of identifying the location of activities based on the World Resources Institute Water Risk Atlas Tool and designation of "High or Extremely High Baseline Water Stress"; it should NOT be included. Such an identification lacks context and could give the wrong impression to banks, insurers, and investors about any activities. Any current operations, wherever they are located in Canada and the United States, must comply with stringent local regulations concerning water draws, use, and disposal. This is not conveyed with this metric. Therefore, this metric could be misinterpreted, misunderstood, and be open for abuse. I request this requirement be removed.

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Appendix B14 (O&G Services) DRAFT Standard

EM-SV-110a.2
I request the inclusion of a quantitative metric for *net emissions* based on purchased carbon offsets, technological or natural based carbon capture and storage, or other means of reducing greenhouse gas emissions, which may include voluntary emissions limiting processes not covered by a governmental program.

EM-SV-110a.3
I disagree with the inclusion of the metric "Percentage of highest level of emissions standard vehicles in fleet – manufactured, owned or operated." I believe the relevant operations may be penalized if this is a low percentage due to the excessive costs related to the deployment of such equipment.

EM-SV-140a.1 and EM-SV-140a.2 – Water Management Services
I disagree with the inclusion of water metrics in this Standard. A company must already qualify for and meet extremely stringent criteria for utilizing water in local Canadian and American jurisdictions. This metric adds no value for investors and does not convey the stringent regulatory context in which companies already operate, and which is clearly stated in annual operating reports. I request this requirement be removed.

Summary

The oil and gas industry provides a reliable, secure, affordable, high-density source of energy for the world. This has resulted in a higher standard of living with a longer average human life span and a significant decrease in deaths due to excessive cold or heat from nature. The oil and gas industry is involved in decreasing all types of emissions every day through research and technology. The world cannot develop new technology without the financial assistance and technology provided by the oil and gas industry and the engineers and scientists that work in this industry. Government subsidies are not sustainable for renewable energy. At some point, such energy sources must stand on their own merit.

As these DRAFT documents are written, they create uncertainty; are prejudicial against the oil and gas industry and significantly favour wind and solar renewables. The result will be a decrease in any future investment not only in oil and gas, but also in ANY new energy technology and any improvement in emissions reductions/efficiencies, due mainly to lack of financial strength.

These DRAFT documents as written will result in the decrease in the standard of living globally due to much higher future energy prices, lack of energy reliability, and a resultant decrease in business activity. History has proven that already. These DRAFT documents will prevent future expansion of clean technology as there will not be the financial engine available. Government subsidies increase the cost of energy; are tax payer's money and subsidies are NOT sustainable indefinitely. ALL forms of energy are needed in the future, and should be treated equally and fairly. These DRAFT documents are anything but fair and equitable.

I have that you please accept and seriously consider our above suggestions as well as our specific concerns for IFRS-S1, IFRS-S2, and Appendix B11/12/13/14 as outlined.

*

Sincerely,

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ENSERVA™

June 10, 2024

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 Enserva, we appreciate the opportunity to provide feedback on the proposed modifications to the IFRS Sustainability Disclosure Standards as they pertain to Canada.

Enserva represents nearly member 200 companies across Canada in the energy services, supply, and manufacturing sectors, including traditional oil and gas as well as the emerging new areas. In Canada, energy services represent more than 400,000 Canadians working in our industry, serving the broader energy sector.

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 Enserva'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.

Sincerely,

Gurpreet Lail
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10 June 2024

Proposed Canadian Sustainability Disclosure Standard (CSDS) 1, General Requirements for Disclosure of Sustainability-related Financial Information, Proposed Canadian Sustainability Disclosure Standard (CSDS) 2, Climate-related Disclosures, and Consultation Paper "Proposed Criteria for Modification Framework"

Dear Ms. French,

We are pleased to provide our response to the Canadian Sustainability Standards Board's ("CSSB") request for input on the Exposure Drafts of the proposed Canadian Sustainability Disclosure Standard *(CSDS) 1, General Requirements for Disclosure of Sustainability-related Financial Information*, the proposed Canadian Sustainability Disclosure Standard *(CSDS) 2, Climate-related Disclosures*, and the Consultation Paper "Proposed Criteria for Modification Framework."

We have set out our responses to the consultation questions in separate appendices and have provided general themes in this cover letter.

We firmly support the International Sustainability Standards Board ("ISSB") and CSSB's efforts in developing guidance and sustainability disclosure requirements in response to the continued demand for globally consistent sustainability disclosures to meet the needs of investors and global financial markets. Similar to the ISSB, we recognize that investor confidence in the reliability, consistency and comparability of sustainability related disclosures is critical to the capital markets and the broader investor community. We note that as of May 28, 2024, more than 20 jurisdictions have already decided to use or are taking steps to introduce ISSB Standards in their legal or regulatory frameworks.[1] We are pleased that the CSSB has taken the approach of aligning with the ISSB standards while still allowing for modifications for Canadian specific circumstances where warranted. In order to allow for dual compliance with CSSB and ISSB standards, we encourage any Canadian specific modifications to be optional.

Forthcoming Disclosure Rules from the Canadian Securities Administrator

We understand the Canadian Securities Administrators (the "CSA") has indicated that it "anticipates adopting only those provisions of the sustainability standards that are necessary to support climate-related

[1] IFRS - Jurisdictions representing over half the global economy by GDP take steps towards ISSB Standards

disclosures."[2] We encourage the CSSB to continue to work with the CSA in adopting standards that are consistent with those of the ISSB. We are of the view that the disclosure requirements in Canada should remain consistent with the ISSB so Canadian reporting companies remain competitive internationally.

Transition period and adoption timeline

EY's 2023 Climate Barometer indicated that there was an improvement in the quality score of Canadian companies' climate disclosures between 2022 and 2023 from 53% to 56%.[3] These scores put Canadian companies behind companies in the UK, South Korea, Western/Northern Europe and Japan and some of these regions also showed a higher degree of improvement than Canada.[4] The EY Climate Barometer analyzes the extent to which companies have built on the TCFD framework to prepare for the introduction of new regulations surrounding the disclosure of climate-related risks and opportunities through their reporting processes and incorporates organizations' readiness for the introduction of IFRS S2. These findings could indicate that Canadian companies would struggle to disclose high quality climate-related information as sought by CSDS 2. However, we also know that companies are preparing and developing methodologies, gaining experience, and understanding, but not yet disclosing the results, pending more certainty on what will be mandatory. Preparing high quality disclosures does take time and the transition reliefs proposed by CSSB will be necessary. Indeed, these may not be sufficient for some companies.

When considering Canada's robust emerging issuer market, there are nearly an equivalent number of companies listed on the TSX-V (1,713) compared to the TSX (1,789).[5] Analysis of Canadian companies' readiness for mandatory sustainability reporting, tend to focus on the largest companies and as discussed above, some of these larger entities may experience challenges in adopting CSDS 1 and 2, for smaller entities with less resources, these challenges may be more pronounced.

We encourage the CSSB to continue its programs and outreach and to specifically target small and medium sized entities who are not as advanced in their sustainability reporting journey and who require assistance and support.

[2] Canadian Securities Administrators - Canadian securities regulators issue statements on proposed sustainability disclosure standards and ongoing climate consultation - Canadian Securities Administrators (securities-administrators.ca)
[3] EY Climate Risk Disclosure Barometer - ey-climate-barometer-final.pdf
[4] EY Climate Risk Disclosure Barometer - ey-climate-barometer-final.pdf
[5] TSX - TMX TSX | TSXV - Listing With Us

Scope 3 GHG emissions

We recognize the importance of Scope 3 GHG emissions and the attention stakeholders are placing around the value chain as investors seek to understand and consider the risks and opportunities in companies' businesses in their investment decisions.

Quantifying Scope 3 GHG emissions may not be straightforward, especially for companies with complex operations, value chains and company structures. There are several categories of Scope 3 GHG emissions up and down the company's value chain which may result in challenges in quantifying and disclosing Scope 3 GHG emissions, such as:

- **Data availability** – As Scope 3 GHG emissions are not under the direct control of the company, the difficulty in collecting the data on a timely basis can be a barrier to disclosure. Companies are often relying on data being provided by their suppliers and customers when quantifying Scope 3 GHG emissions.

- **Internal systems and resourcing** – Calculating Scope 3 GHG emissions may require a significant volume of data inputs and close coordination with suppliers to consolidate data for emissions calculations. It is unlikely that companies currently have robust internal systems to address the complexity around higher quality quantification of Scope 3 GHG emissions, which could lead to significant time and resource investment.

However, we believe data availability and resourcing will improve over time. Federally regulated financial institutions (starting with banks, but also moving to pension funds and insurance companies) are being required to report their Scope 1, 2 and 3 GHG emissions, including Scope 3 Category 15: Investments under the Office of the Superintendent of Financial Institutions ("OSFI") Guideline B-15: Climate Risk Management. OSFI Guideline B-15 and similar requirements globally have led to a wave of new projects and platforms to improve availability of GHG emissions data from investees and borrowers, starting with scope 1 and 2 GHG emissions. The OSFI requirements are happening at the same time as Europe's climate rules as well as some U.S. states adopting their own rules. Overall, the increase in prevalence of rules that require Scope 3 GHG emissions data will result in improvements in the quality of this data overall.

We recognize the importance of reliable, consistent, and transparent disclosures and that the quality of scope 3 GHG emissions data will improve as more companies report their scope 1 and 2 GHG emissions. Scope 3 GHG emissions may be the only way to ascertain a company's GHG emission-related risks or opportunities. As such, we are supportive of mandatory disclosure of Scope 3 GHG emissions through a phased-in approach to be applied over time and disclosure of the company's approach to the calculations so that a reader can understand their level of accuracy.

Building a better working world

Scenario analysis

Developing and applying scenario analysis is complex and time consuming but the benefit of turning theory into tangible, actionable strategies is significant. In practice, performing an accurate risk or opportunity assessment would be difficult without some element of scenario analysis.

As such, we believe scenario analysis should be required to be disclosed as it would enhance the competitiveness of Canadian companies internationally, given certain jurisdictions have already mandated disclosure of scenario analyses. However, we recognize that some companies may be more heavily impacted by mandatory disclosure of scenario analysis, resulting in potential administrative and cost burdens.

To assist companies and drive consistent application, we believe clear definitions and parameters for "scenario analysis" are needed. There is currently a large variation in approaches to scenario analysis and in the absence of detailed guidance, there is a risk of fragmentation in market practice. Further, acknowledging that the availability of resources to perform scenario analysis may be limited for some entities, the CSSB may wish to consider providing guidance relating to scenario analysis based on the nature and risk profile of the company and/or industry. Should the CSSB issue any guidance, we encourage such guidance to be aligned with the ISSB standards.

Forward looking information

The proposed requirements for disclosing the medium and long term anticipated effects of climate-related risks and opportunities on an entity's financial position and financial performance, and its use of climate-related scenario analysis, are likely challenging to implement in terms of the cost of resources required for high quality disclosures. In particular, the medium- and long-term effects will be difficult to assess quantitatively, given that there is not always a direct relationship between a significant sustainability-related risk or opportunity and the financial results. It may also be challenging to clearly distinguish the climate-related effect(s) from all other effects on an entity's financial position, which could impact the reliability of information and the ability to verify future-oriented information. While we broadly agree to the proposals, we re-iterate the need to provide additional illustrative guidance and examples to help manage these challenges. We encourage the CSSB to work with the ISSB to develop practical examples and Canadian localized guidance/illustrative materials (where applicable) to assist entities with the adoption of these complex aspects of the standards.

Consistency with the US market

As discussed above, we are supportive of one global framework for sustainability disclosures. Although the SEC recently stayed their climate rules pending judicial review, their March 2024 final rules do not require scenario analysis nor Scope 3 GHG emission disclosure.[6] There are approximately 230 Canadian companies that are listed on U.S stock exchanges.[7] Many of these Canadian companies have peers who are listed solely

[6] SEC - Federal Register :: The Enhancement and Standardization of Climate-Related Disclosures for Investors

[7] Stock Analysis - A Complete List of Canadian Companies on The US Stock Market - Stock Analysis

in the U.S., so differences in climate disclosure requirements with those of the U.S. SEC could result in unintended consequences for Canadian entities such as a lack of comparability with U.S. peers. We encourage continued collaboration among global standard setters and regulators to move toward eventual global convergence and "one global language" for sustainability disclosures.

Public sector entities

We recognize that Canada has a vital and vibrant public sector market. In 2023, there was a total of $263 billion of bond issuances in Canada with $148 billion of that coming from government entities (both Canadian and foreign).[8] We are interested in learning more about the CSSB's plans to address standards applicable to the Canadian Public Sector It will be imperative to address the Canadian Public Sector sustainability standards in a timely fashion to avoid unnecessary confusion for investors and financial markets. We encourage the CSSB to continue to work with the Public Sector Accounting Board (PSAB) toward the adoption of the CSSB rules for Canadian public sector entities. There is pressure from government and debt investors for similar disclosures in this sector.[9] The same considerations discussed above will also apply as it relates to the ability of public sector entities to comply with mandatory disclosure rules. We look forward to hearing from the CSSB on this topic.

We appreciate the opportunity to comment on the proposed Canadian Sustainability Standards. Please contact Zahid Fazal (Managing Partner – Assurance) or Janice Rath (Professional Practice Director) if you wish to discuss these or any other matters.

Yours sincerely,

Ernst & Young LLP

Chartered Professional Accountants
Licensed Public Accountants

[8] Bloomberg
[9] Deputy Prime Minister and Minister of Finance Mandate Letter from Prime Minister dated December 16, 2021

Appendix 1 - Canadian Sustainability Disclosure Standard (CSDS) 1, General Requirements for Disclosure of Sustainability-related Financial Information

1. Scope of proposed CSDS 1 (proposed paragraphs 1-4 of CSDS 1) *a) Do you agree that the two-year transition relief for disclosures beyond climate-related risks and opportunities is adequate? Please provide your reasons.* *b) If you do not agree that the two-year transition relief is adequate, what transition relief do you believe is required? Please provide your reasons.*

Refer to our cover letter. We are supportive of requiring disclosures beyond climate and believe that CSDS 1 provides companies with a comprehensive framework for these types of disclosures.

2. Timing of reporting (proposed paragraphs 64-69 of CSDS 1) a) *Is any further relief or accommodation needed to align the timing of reporting? If yes, specify the nature of the relief or accommodation and provide the rationale behind it.* b) *How critical is it for users that entities provide their sustainability-related financial disclosures at the same time as its related financial statement?*

As capacity building continues in Canada, we do not believe it is critical in the early years of adoption that sustainability-related financial disclosures are provided at the same time as its related financial statements.

3. Other issues *Do you agree that the requirements in the following sections are appropriate for application in Canada? Please explain the rationale for your answer.* *a) Scope* *b) Conceptual Foundations* *c) Core Content* *d) General Requirements* *e) Judgments, Uncertainties and Errors* *f) Appendices A-E*

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Appendix 2 - Proposed Canadian Sustainability Disclosure Standard (CSDS) 2, Climate-related Disclosures

1. **Climate resilience (proposed paragraph 22 of CSDS 2)**

(a) *Is transition relief required for climate resilience disclosure? If so, for how long and why?*

(b) *Is further guidance necessary? If so, which specific elements require guidance and why?*

(c) *Proposed CSDS 2 references the Task Force on Climate-related Financial Disclosures' "Technical Supplement: The Use of Scenario Analysis in Disclosure of Climate-related Risks and Opportunities" (2017) and its "Guidance on Scenario Analysis for Non-Financial Companies" (2020) for related application guidance. What additional guidance would an entity applying the standard require? Please be specific.*

Refer to our cover letter. We are interested in understanding if the CSSB will address the application of its proposed standards to the Canadian Public Sector, in addition understanding the time frame in which the CSSB will incorporate sustainability standards applicable to the Canadian Public Sector. We feel that given the significant role the Public Sector plays in capital markets, there is a risk of confusion for investors and stakeholders absent clear standards.

2. **Scope 3 GHG emissions (proposed paragraph C4 of CSDS 2)**

(a) *Is the proposed relief of up to two years after the entity applies proposed CSDS 2 adequate for an entity to develop skills, processes, and the required capacity to report its Scope 3 GHG emissions disclosures at the same time as the general-purpose financial reports? Please provide rationale.*

(b) *If you do not agree that two-year transition relief is sufficient, what relief period do you believe is required? Please provide your rationale for the timing you have provided.*

Refer to our cover letter.

We suggest the CSSB develop guidance for Canada and could consider the work of the UK's Transition Plan Taskforce.

As noted above, as capacity building continues in Canada, we do not believe it is critical in the early years of adoption that sustainability-related financial disclosures are provided at the same time as its related financial statements. GHG emissions data collection and compilation has not yet benefited from the same investment in process and controls and rigour that financial data has and is generally not available until several months after year end. For example, the typical GHG reporting under federal and provincial legislation covers a calendar year but is reported in May and June. Given this delay in timing, aligning an issuer's GHG emissions reporting with a financial statement release will require changes to current process resulting in additional time and effort.

3. Other issues

Do you agree that the requirements in the following sections are appropriate for application in Canada? Please explain the rationale for your answer.

(a) Objective
(b) Scope
(c) Core content!
(d) Appendices A-C

We strongly encourage the CSSB to communicate what work is being done to include the Canadian Public Sector in adopting CSDS 1 and CSDS 2.

Appendix 3 - Consultation Paper Proposed Criteria for Modification Framework

1. *Do you agree with the CSSB's proposed criteria to assess modifications, namely additions, deletions, and amendments to the ISSB's global baseline standards? Please provide reasons.*

Yes.

We would expect that any deletions from the ISSB global baseline standards would be rare. As global standards evolve, we encourage the CSSB to continue to monitor the appropriateness of the proposed criteria to assess modifications.

We suggest that any modifications be made optional to ensure that dual compliance with CSSB and ISSB standards is still possible for companies who are either mandatorily subject to both CSSB and ISSB standards and also for those who wish to be compliant with both sets of standards.

2. *Are there other criteria that the CSSB should consider including in its proposed Criteria for Modification Framework?*

No

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

Submitted through FRAS Canada Internet Portal

9 June 2024

Comment on Proposed Criteria for Modification Framework

Dear Chair St-Jean,

Thank you for opening this process to stakeholder comment. We appreciate the opportunity to express our assessment and concerns regarding the proposed criteria for modification framework.

The proposed criteria for modification have some significant issues that need to be addressed. The first paragraph is overly narrow, limiting, and deferential to the ISSB standards. This fails to provide the necessary flexibility to account for Canada's unique national context. Such a restrictive approach could effectively nullify any meaningful input from Canadian stakeholders that falls outside the limited framework identified in paragraph 1.

Conversely, the second paragraph grants the CSSB a great deal of latitude and presumption, which requires further clarification. Typically, the Canadian public interest is determined by elected representatives from diverse regions and backgrounds. However, as an appointed body with a narrow subset of perspectives, the CSSB needs to clearly define and articulate its methodology for determining and representing the public interest: Clear criteria for identifying the Canadian public interest are absolutely necessary. This should include a transparent framework for evaluating the impacts, implications, and potential unintended consequences of present and future IFRS Sustainability Disclosure Standards. A clear explanation of the beliefs and rationale guiding the CSSB's decisions to serve the Canadian public interest is essential.

Respectfully,

T. Nemeth, PhD
Founder
ESG2 Insight

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

Submitted through FRAS Canada Internet Portal

9 June 2024

Feedback on CSSB CSDS 1 (Sustainability) and CSDS 2 (Climate-related) Financial Disclosures

Dear Chair St-Jean,

Thank you for opening this process to stakeholder comment. We appreciate the opportunity to express our assessment and concerns regarding the proposed draft disclosure standards.

We are disappointed that the CSSB failed to meaningfully consider or incorporate any of the many critical comments and suggestions from Canadian stakeholders during its nine-month review of the ISSB's S1 and S2 disclosure standards. This is clear from the fact that CSDS 1 and CSDS 2 are essentially identical to the ISSB's S1 and S2 standards.

Fundamentally, we strongly disagree with the objective and entire rationale of the Canadian Sustainability Disclosure Standards – General Requirements for Disclosure of Sustainability-related Financial Information (CSDS 1) and Climate-related Disclosures (CSDS 2). As proposed, these standards contravene the heart of a free enterprise and free-market system that Canada is supposed to embody by skewing the playing field and distorting investor decision-making. Implementing these standards will incur additional costs across the entire value chain, particularly for smaller operations, while providing minimal benefits to larger enterprises, investors, and consumers.

Our organization has in-depth historical knowledge of the impacts of energy policies on societies, across generations and geographies. We have an appreciation of geopolitical impacts of such policies that many other experts in fields such as accounting may lack, and thus we offer recommendations that we believe will beneficially modify the proposed standards as written.

We will also outline why aligning with our preferred and largest trade partners makes more sense, than aligning policy with one of Canada's least significant trade partner regions.

Summary:
If these standards are adopted, these are the issues of concern we have for Canadian entities and the well-functioning of the Canadian economy, and proposed remedies:

1. **Make voluntary these aspects:** climate scenario analysis, Scope 3 emissions reporting, and industry-based guidelines.
2. **Create provisions to protect confidentiality** of strategy and supply chains.
3. **Create clear and robust** *safe harbour* provisions must be included to reduce the likelihood of costly nuisance litigation of forward-looking statements and accounting of elements outside the direct control of a reporting entity.
4. **Clarify the level of assurance and auditing** required for the *subjective reporting* in CSDS 1 and 2.
5. **Revise the standards to reflect Canada's "Net Zero" objectives (versus absolute zero) -**there ought to be a clear place of representation for accounting of net emissions situated alongside the absolute emissions of an entity since Canada is pursuing a "net-zero" not an "absolute zero" transition.
6. **Establish measures to reduce the cost of compliance**. This requires your consideration.

7. **Ensure that these proposed standards are modified to reflect Canadian needs.** Perhaps most importantly at this point, if CSDS 1 and 2 are accepted with no changes Canadian entities will be put at a significant competitive disadvantage with Canada's largest trading partners.

Climate Scenario Analysis: It has not yet been demonstrated that climate scenario analysis is actually helpful or beneficial to an entity. Roger Pielke, Jr., long-time climate policy analyst and 25-year veteran consultant to the global insurance industry on disaster risk assessment has shown that the financial industry in particular has relied on a scenario known as "RCP 8.5" as if 'business-as-usual' when this is an implausible scenario (i.e., it incorporates the use of more coal than is deemed to exist on earth, among other outliers). The requirement to calculate and then average scenarios is unlikely to be informative vis-a-vis future climate. As many people in the accounting world know, there is a problem with "The Flaw of Averages."[1] Due to the vast uncertainties related to climate and the natural world (i.e., recent volcanic eruptions such as Ruang and that near Grindavik in Iceland) mean that the reported material may 'comply' – but may not be useful, and may open the entity to legal action by activist investors or climate activist groups. The uncertain, subjective, forward-looking projections about the weather, national and global policy developments, geopolitics and other elements could expose an entity to liability and litigation by second-guessing activist investors. Climate scenario analysis is also a very costly exercise that ranges from $100,000 to $400,000 or more depending on the detail of analysis. In addition, the free scenario analyses suggested in the standards are unreliable and still require in-house expertise to interpret and understand the information outputs. **Canada should not be required to conduct climate scenario analysis when our largest trading partners do not mandate it; it should be voluntary instead.**

Scope 3 emissions: The commitment to using the GHG Protocol when it was not designed for accounting purposes is troubling. During the ISSB deliberations on Scope 3 emissions, board member Jeffrey Hale explained that the GHG Protocol, "wasn't designed for investor disclosure. It's meant for companies to think about the emissions in their value chain."[2] This becomes quite clear given the capacity and methodology for obtaining, calculating, assessing, and assuring Scope 3 emissions data is still in its infancy. It would be an onerous burden to require constant monitoring of every interaction and relationship along the value chain and to be responsible for it. Acknowledging the fact that double-counting of emissions takes place with Scope 3 emissions accounting, the American Property Casualty Insurance Association wrote to the UK Financial Reporting Council that "the double-counting could render the disclosure meaningless to investors or potentially misleading."[3] It is also unreasonable to require consideration of all 15 categories of Scope 3 emissions, in particular accounting for the end use of products. Australia, for example, has limited which of the 15 elements of Scope 3 emissions accounting is required while the US and China have made Scope 3 emissions accounting optional. An extra year of relief in reporting Scope 3 emissions is insufficient to debate and address the methodologies, capacity building, and known issues around double-counting. Cost is also a significant factor. Therefore**, Scope 3 emissions accounting should be voluntary.**

Industry-based Guidance: Since CSDS 1 paragraphs 55, 57, 58, and 59; and CSDS 2 paragraphs 12, 23, 28, 32, 37, B67 mandate the consideration and use of the *IFRS S2 Industry-based Guidance on Implementing Climate-related Disclosure*s or SASB industry-based standards, it introduces the requirement for reporting different information for different industries that actually serve to skew the standards in favour of some industries over others. In addition, the industry-based guidance also relies on Aqueduct, the World Resources Institute (WRI) Water Risk Atlas Tool, which is inappropriate for the type of decision-useful information the standards purport to represent.

Unfair Treatment

[1] https://hbr.org/2002/11/the-flaw-of-averages

[2] ISSB Meeting Montreal, 20 October 2022, Climate-Related Disclosures, https://www.ifrs.org/projects/completed-projects/2023/climate-related-disclosures/#meetings [40:20 to 43:27].

[3] https://media.frc.org.uk/documents/37_TAC_Response_American_Property_Casualty_Insurance_Association.pdf

Wind developers receive preferential treatment in the Industry-based Guidance (ISSB and/or SASB) particularly when compared to solar panel production and the oil and gas industry.[4] For example, under "materials efficiency" wind developers must disclose the top five materials consumed in greatest amounts *excluding* "materials consumed in production (for example waste), freight, storage and installation (for example, foundation)." The largest emissions footprint of a wind project is the foundation and transport of the wind turbines from manufacturer to installation. By excluding the foundation and transport, wind projects receive an unfair accounting of emissions that puts them at a competitive advantage over other forms of energy production. In addition, under materials optimization, a wind developer can get credit for designs that reduce materials consumed in the installation of wind turbines such as the foundation even though it does not have to account for the foundation in its top 5 materials. In contrast, solar developers must account for the energy required in the production of the solar panels; there is no energy accounting requirement for wind turbine production. Oil and gas exploration and production companies must report not only the Scope 3 emissions from others using their products, they also must report the gross potential emissions embedded in a company's hydrocarbon reserves. This will be counted against a company as part of its overall emissions. It is not right that reserves will now be considered a liability rather than an asset, while wind projects and developers get a pass on the most emissions intensive aspect of their production and operations.

Water Risk and Aqueduct Tool

The use of the WRI Aqueduct tool is a problem because, like the GHG Protocol, it was never designed for this purpose. Investors will likely believe that the Aqueduct information has pulled together and analysed local and regional data to provide a reliable assessment when that is not the case. The WRI offers a disclaimer on the tool and states itself that "Aqueduct remains primarily a prioritization tool and should be augmented by local and regional deep dives."[5] The WRI also explains, *"Although the underlying models have been validated, the results are not [validated]. **Water stress remains subjective and cannot be measured directly**. The lack of direct validation makes it impossible to assess some of the parameters in our calculation…Finally, we should stress that Aqueduct is tailored to large-scale comparison of water-related risks. **The indicators have limited added value on a local scale**."*[6] For the 29 industries that the use of Aqueduct is required, it is a binary question asking whether or not an operation is taking place in or is sourcing ingredients or livestock from areas of high to extreme-high water stress. **This binary choice does not provide adequate and decision useful information for investors and actually could undermine investor decision-making.** For example, an unintended consequence could be that livestock from Saskatchewan or Alberta – because of the Aqueduct tool – will be disqualified from purchase by large processors or purchasers that are publicly listed because the livestock producers happen to be in an area identified by Aqueduct as high to extreme-high water stress. One of the water metrics only asks for absolute water drawn and does not differentiate between fresh or brackish water. Given these severe but little-known limitations of the Aqueduct program and its data, and the unfair treatment between different industries within the ISSB/SASB standards, **we request that the Industry-based Guidance be optional**. **The SASB or ISSB Industry-based Guidelines are highly problematic for the Canadian context and should only be for voluntary use.**

Confidentiality. It is unclear how confidential and proprietary company information will be protected in these disclosures, particularly related to supply chains and strategy. Concerns were raised about the disclosure of confidential information in the initial consultations when the ISSB was drafting IFRS S1 and IFRS S2 but no adjustments were made.[7]

Liability and Litigation Risk. There are many sections of both CSDS 1 and CSDS 2 that expose entities to potential liability and litigation: CSDS 1 paragraphs 3, 15(b), 27(a), 33, 41, 44, 46, 72, 73, 79, B5, B22, B23,

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[4] Vol. 11 Oil & Gas—E&P, p.80; Vol. 45 Wind Tech & Project Developers, p.399; Vol. 44 Solar Tech & Project Developers, p.388. *IFRS S2 Industry-based Guidance on implementing Climate-related Disclosures.* https://www.ifrs.org/issued-standards/sasb-standards/

[5] https://www.wri.org/data/aqueduct-global-maps-40-data.

[6] https://files.wri.org/d8/s3fs-public/2023-08/aqueduct-40-technical-note.pdf?VersionId=G_TxTR2LAnlgXGzy7xtdUP_5lmkXJY7d

[7] IFRS, Exposure Draft, March 2022, IFRS S2 Climate-related Disclosures, p.18. https://www.ifrs.org/content/dam/ifrs/project/climate-related-disclosures/issb-exposure-draft-2022-2-climate-related-disclosures.pdf.

B24, B32, B57, B59; CSDS 2 paragraphs 6(a)(v), 9(b-e), 14, 15, 18, 19, 21, 22, 25, 29(g), B32, B38, B46, B54, B58. For example, an entity could be held financially liable for any perceived misjudgement or misstatement on emissions, future scenarios, future global developments, future weather events, the behaviours and actions of those who use an entity's products, and any controversial press affecting reputation that might be generated by those who seek the demise of certain industries. A safe harbour for uncertainties of statements, data, and projections is not included within the standards. Australia is offering a three-year safe harbour on liability of statements concerning Scope 3 emissions, climate scenario analysis, and transition plans. The United States, with which Canada trades the most, offers permanent safe harbour for "transition plans, scenario analysis, the use of an internal carbon price, and targets and goals."[8]

In addition, during the deliberations of the ISSB as staff and members were drafting the final S2 disclosure standards, safe harbours were discussed. It was the opinion of the board members to not prescribe specific safe harbours but rather leave that to the discretion of each jurisdiction.[9] Furthermore, it was recommended that the "ISSB encourage jurisdictions to provide safe harbours" and collaborate with securities regulators with the goal of facilitating disclosures and overcoming reluctance.[10] **Whilst we appreciate the desire to be as true as possible to the ISSB disclosure standards, the ISSB itself encourages jurisdictional discretion and distinctiveness to accommodate reporting reluctance and data availability challenges**.

Therefore, reflecting the intent and spirit of the ISSB members when deliberating IFRS S2, **we request a permanent safe harbour** for Scope 2 and 3 emissions statements and data, climate scenario analysis, internal carbon pricing, transition plans, any forward-looking statements including projections, and targets and goals. Related to this, we request a statement of assurance within the standard that only financially material information needs to be disclosed.

Assurance and/or Audit. Given that these disclosures are to be considered alongside financial reporting indicates a certain legality with respect to assurance. This raises some significant concerns: standards for how to provide assurance for this new type of rather subjective reporting have not yet been produced, auditors have not yet been trained to analyse this type of information, and there is actually a known skill and labour shortage in this field.[11] There needs to be clarity on the implied requirement of verification of data and assurance. **If assurance is required, it ought to be phased in over a period of time coupled with a safe harbour until the point of reasonable assurance is reached.**

Net Emissions alongside Gross/Absolute Emissions. Since Canada's policy is for "net-zero" and not "absolute zero" it is puzzling that there is no place for net emissions in CSDS 1 or CSDS 2. The requirement for only absolute emissions unfairly distorts the activities or progress an entity is making with respect to lowering emissions through technology such as carbon capture and storage (CCS) therefore a "net" emissions metric is required for equity and better investor understanding of the efforts being made by entities to lower their emissions over time. **We request there be a requirement to report net emissions** (calculated by taking into account CCS or other efforts, natural or technical, undertaken to reduce overall emissions) alongside absolute emissions and in relation to the overall national net-zero targets. It should be noted that the feasibility of reaching Net Zero targets is in question as detailed by energy expert and author Prof. Emeritus

[8] https://www.sec.gov/files/33-11275-fact-sheet.pdf. See also, https://kpmg.com/kpmg-us/content/dam/kpmg/pdf/2024/sec-climate-disclosure-rule-final-reg-alert.pdf.

[9] ISSB Meeting Montreal, 20 October 2022, Climate-Related Disclosures, https://www.ifrs.org/projects/completed-projects/2023/climate-related-disclosures/#meetings [1:14:20 to 1:27:44]. See also, IFRS Sustainability, Staff Paper 4B, December 2022, Climate-related Disclosures, Scope 3 greenhouse gas emissions; "The staff notes that in discussions with jurisdictions adopting IFRS Sustainability Disclosure Standards, consideration be given to whether providing safe harbour provisions would be necessary or helpful in a jurisdiction to facilitate disclosure of Scope 3 GHG emissions…Ultimately this is a decision for jurisdictions and securities regulators." Para. 7, p.2. https://www.ifrs.org/content/dam/ifrs/meetings/2022/october/issb/ap4b-climate-related-disclosures-scope-3-greenhouse-gas-emissions.pdf

[10] IFRS Sustainability, Staff Paper 4B, December 2022, Climate-related Disclosures, Scope 3 greenhouse gas emissions, p.19. https://www.ifrs.org/content/dam/ifrs/meetings/2022/october/issb/ap4b-climate-related-disclosures-scope-3-greenhouse-gas-emissions.pdf

[11] https://www.businessthink.unsw.edu.au/articles/green-skills-gap-climate-risk-sustainability-reporting.

Vaclav Smil in this recent report: *"Halfway Between Kyoto and 2050 Zero Carbon Is a Highly Unlikely Outcome."*[12] Does this create a risk of shareholder legal action against a corporation for reporting activities that bear little likelihood to reality?

Cost of Compliance. The significant compliance costs associated with the complexity of the standards pose a particular challenge for SMEs, who often lack the financial margins and capacity to meet these requirements. To illustrate, the Australian government's cost impact analysis for ISSB-based disclosure standards, converted into Canadian dollars, estimates an average initial transitional compliance cost of $1.1 million with annual recurring costs of $641,000 for publicly listed companies with at least 100 employees and $45 million in annual turnover. This substantial expense diverts resources away from investing in product and service improvements or returning profits to investors. Instead, these funds go towards climate consulting firms, representing a net loss for the company rather than a productive investment.

The potential impact on SMEs is especially concerning, as these businesses frequently operate with limited financial, human, and time resources. The extensive sustainability reporting and verification mandates can impose substantial additional burdens, further straining their ability to manage day-to-day operations and growth challenges. **There needs to be some kind of reconsideration of the breadth of requirements in order to lower the cost of compliance; one way would be to make climate scenario analysis, scope 3 analysis, industry-based guidance, and transition plans voluntary. A specified limit on the size of company obligated to comply would also be helpful and an exclusion for companies on the venture exchange.** That would also make Canada more in alignment with its largest trading partners.

Competitive Disadvantage. Most importantly, we are concerned that due to the mandatory requirements, lack of safe harbour, and cost of compliance issues discussed above, the CSDS 1 and CSDS 2 will put Canadian entities at a significant **competitive disadvantage** with our continental and largest trading partners. It is important to align with our largest partners so as not to exclude Canadian businesses through excessive costs and regulatory burden. The number one export destination for Canadian exports is the United States (US) which takes 78%, China is number two at 4% and Mexico is Canada's fifth largest export destination. For imports to Canada, the US is again number one with over half coming from the US, China is number two with 12% and Mexico is third with 6.2%.[13] For context, all of Europe, including the UK, only comprises 7.4% of Canadian exports, and only 14% of total imports into Canada come from the EU and UK. This is an important distinction because there have been arguments made, most recently at the Canadian Senate by Eric Usher[14] of the UN and Mark Carney[15], that Canada must adopt these standards in order to retain or improve access to the European market. The data shows that the EU represents a very small portion of Canadian trade, but the US, Mexico, and China are of greater importance.[16] Therefore, Canada should be aligning more with our biggest trading partners rather than a peripheral market.

Although the Securities and Exchange Commission (SEC) in the US released a climate disclosure rule on 6 March 2024, it was stayed indefinitely on 4 April 2024 until several court challenges are resolved. Even if the SEC rule is upheld, it **differs significantly** from what is being proposed in Canada. The SEC rule does not mandate Scope 3 emissions accounting, climate scenario analysis is voluntary, SASB industry-based guidance is optional (meaning water risk data is not mandated), individual executives, board members, or employees with responsibility for climate oversight do not have to be identified, transition plans are voluntary, compliance, emission, and assurance requirements are phased in, small and emerging growth companies do

[12] Vaclav Smil, "Halfway Between Kyoto and 2050: Zero Carbon is Highly Unlikely (Vancouver: Fraser Institute, 2024), https://www.fraserinstitute.org/sites/default/files/halfway-between-kyoto-and-2050.pdf

[13] https://tradingeconomics.com/canada/imports-by-country; https://tradingeconomics.com/canada/exports-by-country.

[14] https://sencanada.ca/en/Content/Sen/Committee/441/BANC/78EV-56766-E

[15] https://sencanada.ca/en/Content/Sen/Committee/441/BANC/56756-E

[16] https://www150.statcan.gc.ca/n1/daily-quotidien/230518/cg-b002-eng.htm. Mr. Usher suggested that the current 1,100 Canadian companies trading with the EU were a significant number. Statistics Canada shows there are over 48,000 Canadian companies engaged in direct international trade, most of them trade with the US. Based on this data it means only 2% of Canadian companies would be affected by diminished access to the EU market.

not have to report emissions, and there are extensive safe harbour provisions for forward-looking information such as transition plans, scenario analysis, internal carbon pricing, targets and goals, and emissions from entities outside the direct control of a company (if reported).[17] This means that American companies will not be faced with the costly and burdensome reporting requirements that Canadian companies are being saddled with.

At a time of high inflation and a cost-of-living crisis, it is important to ensure that Canadian entities are not discriminated against by these standards that will jeopardize not only their profitability but their very existence. **If Canada does anything, it would be prudent to align itself with our CUSMA and largest trading partners, rather than with other members of the international community, like the EU, with whom we conduct minimal trade.** Canadian enterprises may close down or move their operations to other less costly and burdensome jurisdictions. We cannot afford to let Canadian businesses struggle with excessive costs and regulations that could push them out of international trade. The repercussions of businesses closing or relocating would be catastrophic for the Canadian economy.

We ask that you please accept and seriously consider our above suggestions and specific concerns for CSDS 1 and CSDS 2.

Respectfully,

T. Nemeth, PhD
Founder
ESG^2 Insight

[17] https://viewpoint.pwc.com/dt/gx/en/pwc/in_depths/in_depths_INT/in_depths_INT/navigating-the-sec-climate-related-disclosure-requirements.html; https://dart.deloitte.com/USDART/home/publications/deloitte/heads-up/2024/sec-climate-disclosure-rule-ghg-emissions-esg-financial-reporting.

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ESG Global Advisors

100 King Street West, Suite 5600, Toronto, Ontario, M5X 1C9

Date: June 6, 2024

Subject: CSSB Consultation on Adoption of CSDS 1 and CSDS 2 in Canada

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ESG Global Advisors is pleased to provide our official response and feedback on the proposals outlined in the CSSB's recently released Exposure Drafts and Consultation Paper, notably the two Exposure Drafts: "Proposed Canadian Sustainability Disclosure Standard (CSDS) 1: General Requirements for Disclosure of Sustainability-related Financial Information" and "Proposed CSDS 2: Climate-related Disclosures."

For background, our firm hosted two virtual roundtable consultations with over 20 Canadian preparers representing a range of sectors in the Canadian and global economy. More details on the companies who participated in the consultation can be found in Appendix A. In addition, our firm's CEO, Sarah Keyes, was also a member of the CSSB Implementation Committee.

The roundtable discussions provided a forum to discuss the Proposed Standards, along with the opportunity to hear the perspectives from Canadian preparers (including SMEs) who may be impacted by the CSSB's work and potential future mandatory sustainability disclosure rules. The roundtables also provided awareness and capacity building with the Canadian preparer community to help them understand the implications of these proposed standards and how to begin preparing for their voluntary adoption.

Our response focuses on the subset of the CSSB's consultation questions that we felt we were best positioned to respond to given the nature of the roundtables hosted and that were determined to be highest value to the CSSB's consultation.

In terms of the criteria for modification of the standards, **we recommend not having any predetermined criteria for deletions from the International Sustainability Standards Board (ISSB)'s IFRS Sustainability Disclosure Standards**. Based on our firm's work with capital providers and preparers, our concern is less about "additions" to reflect unique Canadian issues not covered in the ISSB Standards (e.g., Indigenous truth and reconciliation) and more about ensuring no "carve outs" or deletion of certain aspects of the ISSB Standards. Any deletions or removals from the ISSB Standards would defeat the purpose of establishing a global baseline, which was the core objective of the ISSB's efforts to provide decision-useful disclosure to capital providers. The comparison of the AcSB's modification criteria for IFRS Accounting Standards to the CSSB's proposed modification criteria for ISSB Standards can be used as a precedent. If the CSSB attempts to treat Canada unique in this regard, we will be departing from the global baseline and investors will not have consistent and

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comparable information to allocate capital across jurisdictions. As such, Canadian companies could be at a competitive disadvantage, with impacts to access to and cost of capital from global investors.[1]

This document provides a summary of our response, along with the official response submitted to the questions for comment.

Executive Summary

ESG Global Advisors is supportive of the CSSB's proposed approach to adopt sustainability disclosure standards that align with the global baseline standards developed by the ISSB, with no carveouts (i.e., no deletions from the global baseline). Canada has an important opportunity to play a leadership role in this period of transition towards enhancing entities' sustainability reporting and it should not depart from the global baseline as a start.

CSDS 1: General Requirements for Disclosure of Sustainability-related Financial Information

Our response focuses on:

- The proposed two-year transition relief for disclosures beyond climate-related risks and opportunities; and
- Further relief or accommodation needed to align the timing of sustainability-related financial disclosures and the related financial statements.

Key takeaways from our roundtable consultations with preparers are outlined below.

Two Year Transition Relief for Disclosures Beyond Climate

- **The majority of preparers felt that the two-year transition relief for disclosures beyond climate-related risks and opportunities is adequate for most large companies.** Transition relief of two years provides a reasonable runway to build up reporting capacity for most preparers; companies can focus on developing an understanding of the requirements and expectations, conduct gap assessments between existing approach to ESG reporting and CSDS requirements, and build capacity including acquiring or developing necessary resources.
- **However, the CSSB should consider providing further relief for smaller companies.** Smaller companies face significant limitations in terms of financial, human capital and technology resources. Providing an additional year of relief, at a minimum, to smaller companies could help mitigate some of the strain on resources that compliance with the CSDSs could pose.
- **Size thresholds to consider, as alternatives to market cap, may include (but are not limited to): exchange listing, employee headcount, company revenue and carbon intensity.** Participants noted the Final Report of the Expert Panel on Sustainable Finance which recommended a phased approach to adoption of the TCFD recommendations based on market cap, existing securities regulation that stratifies issuers based on whether they are listed on the TSX or TSX Venture exchange, and the federal government's existing definitions for small, medium and large companies based on headcount.

Timing of Reporting

- **Users of sustainability reporting require sustainability-related financial disclosures in a timely**

[1] This comment is reflective of ESG Global Advisors' view. Feedback during the roundtable for proposed modifications was limited.

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manner to incorporate material ESG factors into the investment decision making process and to direct stewardship activities including proxy voting and engagement.

- **However, alignment of the timing of reporting presents significant challenges for preparers and in particular smaller companies.** Challenges include compounding of significant existing year end reporting burden, reliance on data that may not be available in time to align sustainability disclosure with financial disclosures, impacts to data quality, inconsistencies with deadlines for other ESG-related reporting requirements and the cost and/or availability of experts to support with sustainability reporting.
- **The CSSB should consider whether interim relief and/or accommodation related to timing of disclosure is required for smaller companies given the identified challenges.** Preparers suggested that sustainability-related financial disclosures should be required to be provided no later than 90 days after the related financial statements are filed. Ultimately, the objective should be to strive towards alignment of sustainability and financial disclosures within two years and to ensure that users of sustainability disclosure have the information they need to support time sensitive stewardship activities such as proxy voting.

CSDS 2: Climate-related Disclosures

Our response focuses on:

- Transition relief and additional guidance required for climate resilience disclosures; and
- Proposed two-year transition relief for disclosure of Scope 3 GHG emissions.

Key takeaways are outlined below. As noted above, **we strongly suggest that no carve outs to the IFRS S2 standard** should be made to ensure a global baseline of climate-related disclosures is established for investors to receive consistent and comparable disclosure by preparers to allocate capital accordingly.

Climate Resilience Disclosures

- **The majority of preparers felt that transition relief for climate resilience disclosure is needed and further support conducting the analysis is required. Specifically, transition relief of 1-2 years would provide preparers time to enhance the strategic value of the analysis**. Preparers commented that there is the possibility that scenario analysis may evolve significantly over the next few years and a transition relief could potentially avoid inaccurate conclusions and result in a more strategic approach that yields outputs that are more decision useful for users of sustainability information. A phase in approach based on company size could also be considered, similar to what we have suggested for CSDS 1 above.
- **Recommend considering the inclusion of a materiality threshold for conducting scenario analysis, similar to what is included in the SEC's Final Climate Rule.** This would provide preparers with the ability to consider entity-specific circumstances and determine what is appropriate for their own business given the materiality of climate-related risks and opportunities.
- **Inclusion of a safe harbour provision for forward-looking statements will be critically important.** Because scenario analysis is still a relatively sophisticated practice with low voluntary adoption and involves significant assumptions, judgements and predictions about future events, it is important that safe harbors apply to entities' forward-looking statements if the CSSB wants to encourage Canadian securities regulators to adopt a climate disclosure rule that is aligned with CSDS 2.

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- **Preparers felt that further guidance on climate scenario analysis would be required from the CSSB to effectively fulfill these disclosure requirements.** Key areas flagged included additional guidance on the inputs needed to perform climate scenario analysis, guidance on the frequency of conducting the assessment, training and implementation support, and further engagement with companies and investors to ensure a common understanding of how to operationalize scenario analysis and what constitutes decision useful disclosure.

Scope 3 Emissions

The ISSB decided to include a requirement in IFRS S2 for companies to disclose Scope 3 GHG emissions following a global consultation process of over 30,000 stakeholders. Investors and other capital providers consider Scope 3 GHG emissions to be critical when assessing a company's risk exposure. **This is essential information that investors need to allocate capital and as such, Scope 3 emissions should <u>not</u> be removed.** Further commentary on the roundtable is outlined below:

- **Complexity around calculating an organization's Scope 3 GHG emissions was a common sentiment.** However, it was widely acknowledged that Scope 3 GHG emissions are an important aspect of assessing companies' exposure to climate-related risk given their overall materiality to GHG emissions and the creation of climate-related financial risks, regardless of sector or size.
- **Some preparers commented on the importance of ensuring alignment with the SEC's Final Climate Rule, which excludes Scope 3 emissions.** If an additional reporting burden is placed on Canadian public companies, a competitive and cost disadvantage could be placed on those preparers and creates risk of de-listing in Canada if the regulatory burden is perceived to be too high. Further, with the United States (US) as Canada's largest trading partner, sensitivity to departures from the SEC's approach needs to be taken to ensure cross-listed issuers can reconcile between the two jurisdictions. It is noteworthy to flag that the US is also not on IFRS Accounting Standards, and thus this is not an issue unique to the ISSB Standards – the two jurisdictions have a long history of using different accounting standards and this has not impacted Canadian companies' ability to remain competitive with US companies.
- **To alleviate the complexity around Scope 3 reporting, a materiality threshold should be considered for reporting on Scope 3 GHG emissions, including ensuring a focus on measuring and reporting the most material categories of Scope 3 GHG emissions** (as opposed to requiring disclosure of all 15 categories of Scope 3 GHG emissions). This should be accompanied by additional guidance for companies on determining the materiality of Scope 3 GHG emissions to be adopted by Canadian securities regulators.
- **If the CSSB can provide clearer expectations and materiality thresholds for Scope 3 emissions, a two-year transition relief, at a minimum, would be sufficient.**

In ESG Global's experience as an expert ESG advisor to both users and preparers of sustainability reporting, proportionality and developing a fit-for-purpose approach that balances users need for high quality, consistent and comparable sustainability information with the very real reporting challenges that preparers are facing is critical to the CSSB's objective to advance the adoption of sustainability disclosure standards that align with the global baseline standards developed by the ISSB. Current limitations in businesses' internal processes, human capital, and related subject matter expertise are expected to have significant impacts on voluntary adoption of the CSDSs if appropriate relief and accommodation is not provided, as well as uptake by Canadian securities regulators to make these standards mandatory for publicly traded companies.

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Formal Response

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

After reviewing and discussing the requirements of CSDS 1 and the transition relief being proposed, **the majority of preparers felt that the two-year transition relief for disclosures beyond climate-related risks and opportunities is adequate for most large companies**.

Given that CSDSs are built from and leverage the SASB Standards and the TCFD recommendations, which have been adopted by many Canadian companies in a voluntary capacity over the past few years, many preparers are well-positioned to enhance disclosure in alignment with the CSDSs. Other mandatory ESG reporting requirements will come into effect over the course of the next few years (e.g., Corporate Sustainability Reporting Directive (CSRD) requirements, California's climate-related disclosure bills S.B. 253 the Climate Corporate Data Accountability Act and S.B. 261 the Climate-Related Financial Risk Act) requiring focus and attention on the development of ESG reporting capacity.

Transition relief of two years provides a reasonable runway to build up reporting capacity for most preparers; companies can focus on developing an understanding of the requirements and expectations, conduct gap assessments between existing approach to ESG reporting and CSDS requirements, build capacity including acquiring or developing necessary resources, and be well-positioned to meet reporting requirements.

However, the CSSB should consider providing further relief for smaller companies. Smaller companies may have less complex structures or be able to take advantage of some of the built in reliefs (e.g., use of reasonable and supportable information available without undue cost or effort, use of an approach that is commensurate with the skills, capabilities and resources available) however they face significant resource constraints and reporting burden that must be acknowledged and considered by the CSSB. Smaller companies face limitations in terms of financial, human capital and technology resources. Providing an additional year of relief, at a minimum, to smaller companies could help mitigate some of the strain on resources that compliance with the CSDSs could pose. The chair of the ISSB, Emmanuel Faber, made recent comments on this point noting that the ISSB Standards may not be suitable for very small companies given their complexity and scope.

This point is particularly important in the Canadian context. As of December 2022, **97.8% of businesses in Canada were small businesses and 1.9% were medium-sized businesses**. Small and medium businesses employ 46.8% and 17% of the total private labour force in Canada, respectively. The impact of small and medium businesses in Canada should not be understated and it is important to consider their unique challenges and opportunities to ensure that they are brought along on this important journey and critical shift from voluntary sustainability disclosure to standardized and regulated sustainability disclosure.

OSFI's B-15 Climate-Risk Management Guideline and the SEC's Final Climate Rule both include relief/phase in of requirements that take into consideration company size:

- For OSFI's B-15 Climate Risk Management Guidelines, there are different implementation timelines for:
  - Domestic systemically important banks, which are identified based on size, substitutability, complexity and interconnectedness, and internationally active insurance groups, which are defined as large insurers with a significant global presence; and
  - Small and medium-sized deposit taking institutions, which are defined as banks, bank holding companies, federally regulated trust companies, and federally regulated loan companies that

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have not been designated by OSFI as domestic systemically important banks, and all other federal regulated insurers.

- For the SEC's Final Climate Rule, there are different implementation timelines and disclosure requirements based on the status of the entity (e.g., large accelerated filers, accelerated filers, smaller reporting companies and emerging growth companies), which is determined based on public float and annual revenues.

Users of sustainability reporting also acknowledge the need for proportionality as it relates to sustainability reporting requirements. The UN PRI has drafted a Call to Action statement in support of global adoption of the ISSB Standards, signed by 121 investors, companies, industry associations and stock exchanges. The statement acknowledges the importance of economy-wide disclosure rules for both publicly listed and privately held companies but notes that this will require capacity building among preparers, users and auditors of sustainability reporting. The statement flags that **there is a need to manage the reporting burden that is placed on companies and that disclosure rules should be proportionate based on company size and should be phased in starting with the largest companies**.

This raises the question of thresholds for determining whether further relief should apply on the basis of company size. In 2019, the Final Report of the Expert Panel on Sustainable Finance suggested a phased approach to adoption of the TCFD recommendations based on market cap; companies with a market cap of greater than $8 billion or a market cap of greater than $2 billion and revenue of greater than $1 billion were defined as "large" and companies below these thresholds were defined as "small and medium sized". However, it was noted during the discussion that market cap can be challenging given the significant fluctuations in valuations experienced by companies. There was robust discussion on this topic during the consultation roundtables hosted by ESG Global and **preparers suggested that the CSSB consider the following thresholds**:

- **Exchange listing** – e.g., TSX vs. TSX Venture similar to existing securities regulation;
- **Employee headcount** given important connection to human capital resource availability and a suggestion to define small, medium and large companies consistent with the federal government's existing definitions;
- **Revenue** with due consideration given to pre-revenue companies;
- **Carbon intensity** to take a "materiality" approach and ensure that from a risk/opportunity perspective the most significant emitters by sector are required to report in the near term and smaller companies with less significant emissions are provided further relief.

Timing of Reporting (proposed paragraphs 64-69 of CSDS 1)

The importance of aligning the timing for issuance of sustainability-related financial disclosures and the related financial statements should not be understated. **Users of sustainability reporting require sustainability-related financial disclosures in a timely manner** to incorporate material ESG factors into the investment decision making process and to direct stewardship activities including proxy voting and engagement.

However, alignment of the timing of reporting presents significant challenges for preparers and in particular smaller companies. As highlighted in our response above, smaller companies face significant resource constraints and reporting burden that must be acknowledged and considered by the CSSB.

Many of the challenges highlighted by the CSSB are important concerns for many of ESG Global Advisors' corporate clients and were shared during the consultation roundtables that our firm hosted. **These challenges include:**

- **Significant existing year end reporting burden being compounded**, in particular for teams responsible for financial reporting;
- **Existing data collection processes are reliant on disclosure/information from third parties** (e.g. suppliers) to inform the company's own data **that may not be available in time to align reporting** (e.g., energy consumption, GHG emissions data);
- **Impacts to data quality due to increased estimations** and/or less time available to confirm accuracy and reliability of data;
- **Inconsistencies with deadlines for other ESG-related reporting requirements** (e.g., provincial GHG emissions reporting deadlines);
- **Cost and/or availability of experts to support with sustainability reporting** – notably assurance costs and availability of auditors that have the skills and expertise to assure sustainability information as expectations for the provision of assured sustainability data increase.

The CSSB should consider whether interim relief and/or accommodation related to timing of disclosure is required for smaller companies given the identified challenges. Preparers suggested that sustainability-related financial disclosures should be required to be provided no later than 90 days after the related financial statements are filed. Ultimately, the objective should be to strive towards alignment of sustainability and financial disclosures within two years. It is important to note that many users of sustainability information require sustainability-related financial disclosures to inform proxy voting activities and so disclosure should be provided to allow sufficient time to review this information in advance of voting.

On a related note, consider the contents of the SEC's Final Climate Rule which allows for delayed GHG emissions disclosure. Many of the comments received by the SEC during its comment period on the proposed climate rule flagged that preparers would face difficulties measuring and reporting fiscal year GHG emissions by the same deadline as annual reporting (very similar to the comments received by the ISSB and considered by the CSSB). The SEC's Final Climate Rule allows GHG emissions metrics to be disclosed in the Form 10-Q for the second fiscal quarter in the fiscal year immediately following the year to which the GHG emissions disclosures relates or in an amendment to its Form 10-K filed on the due date for the second quarter Form 10-Q. The SEC believes that this accommodation will help to alleviate challenges with disclosing this data in the annual report and better align with current market practice while still providing users of sustainability reporting with timely information.

Climate Resilience (proposed paragraph 22 of CSDS 2)

Transition Relief

After reviewing and discussing the climate resilience disclosure requirements and whether transition relief is required, **the majority of preparers felt that transition relief and further support conducting the analysis is required.**

As the CSSB acknowledges, scenario analysis is a new concept for many organizations. The TCFD has outlined key scenario analysis characteristics, including being plausible, distinctive, consistent, relevant and reliable. In

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order to uphold these characteristics and conduct analysis that is strategic and decision useful for users of information, transition relief is needed. **Transition relief of 1-2 years would provide preparers time to perform the analysis more strategically for the following reasons:**

- **Transition relief would provide preparers time to upskill team members and provide training to individuals who will be required to perform the analysis.** Scenario analysis is widely considered to be one of the most challenging of the TCFD's recommendations with the lowest uptake voluntarily. Companies will require more time to lay the foundation and develop the capacity to conduct the required analysis.
- **Preparers who have conducted a scenario analysis within their organization commented that the process requires a new discipline in risk management** as a prerequisite, and that significant training, and change management, alongside a significant culture shift. This is important work that takes time.
- **A transition relief period may allow further tools and technology to be developed** to enhance data accuracy, support entities performing scenario analysis and ensure that the results of the scenario analysis work are more accurate and decision useful. This consideration is particularly important for small and medium enterprises given they have limited capacity and resources to dedicate to complex and nuanced scenario analysis and could benefit significantly from an ability to leverage digital tools.

Preparers commented that there is the possibility that scenario analysis may evolve significantly over the next few years and a transition relief could potentially avoid inaccurate conclusions and result in a more strategic approach that yields outputs that are more decision useful. One solution could be to implement a transition relief approach similar to OSFI's B-15 Climate Risk Management Guideline, where climate resilience disclosures are phased in based on company size as described above.

Preparers suggested that a materiality threshold for conducting scenario analysis, similar to what is included in the SEC's Final Climate Rule, would provide preparers with the ability to consider entity-specific circumstances and determine what is appropriate for their own business given the materiality of climate-related risks and opportunities.

Inclusion of a safe harbour provision, or a legal provision that eliminates legal or regulatory liability associated with forward-looking statements, will be critically important in order to encourage mandatory disclosure rules that align with the CSDSs. Because scenario analysis is still a relatively sophisticated practice with low voluntary adoption and involves significant assumptions, judgements and predictions about future events, it is important that safe harbors apply to entities' forward-looking statements if the CSSB wants Canadian securities regulators to adopt a climate disclosure rule that is aligned with CSDS 2.

Finally, given our experience working directly with investors and our discussions with investors around the usefulness of scenario analysis, we understand that investors view climate scenario analysis as an important strategic exercise for companies to undertake and an important consideration when integrating ESG factors into the investment decision making process. However, current practices and methodologies do not always provide investors with decision useful information. **Transition relief would provide the opportunity for greater collaboration between investors and preparers to ensure greater clarity on how investors are using the outputs of companies' climate scenario analysis and therefore how to ensure the analysis provides investors with the information needed.**

Further Guidance

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All preparers felt that further guidance and support is needed. Given the complexity of scenario analysis, where inputs and assumptions drive the results, guidance and support on the following elements is required:

- Guidance and clarification on the inputs needed to perform the analysis is needed. This includes:
  - List of relevant climate scenarios;
  - Guidance on the parameters/assumptions;
  - Guidance on the analytical choices companies need to make (i.e. qualitative or quantitative, timing, climate modeling, physical risks, value chain considerations etc.);
  - Guidance on time horizons (i.e. definition of short, medium and long-term);
  - List of metrics used to report on business impacts (i.e. earnings, costs, revenues, assets, capital allocation/investments etc.).
- Preparers suggested the implementation of a standardized set of inputs that entities must use to support investors with "baseline" scenario assumptions, in order to provide apples-to-apples comparison would be useful. However, companies must also have the flexibility to supplement these scenarios with their own models and assumptions.
- Guidance on the frequency of conducting the assessment as new and updated information becomes available is needed.
- Training, implementation support and contacts/resources for companies to ask questions as they perform the scenario analysis is needed (i.e. EFRAG guidance can be used as a strong precedent).

Additional Guidance (Beyond the Existing TCFD Guidance)

Preparers commented that greater engagement with both companies and investors on how to operationalize scenario analysis and what constitutes decision useful information before proposing methodologies or standards would be helpful, as companies and investors might have more useful/practical suggestions for implementation.

Additional guidance could also include:

- Access to online webinars/training videos to support effective implementation;
- Access to a list of certified consultants who have conducted these analysis in the past, and have the experience and access to technology to perform this analysis;
- List of verified technology partners who can perform the quantitative modeling for businesses in a cost-efficient manner;
- Examples and case studies of organizations who have successfully performed the assessment to use as precedent;
- Alignment with OSFI's guidance on climate scenario analysis to ensure a consistent Canadian approach to conducting the analysis.

Scope 3 GHG Emissions (proposed paragraph C4 of CSDS 2)

Complexity around calculating an organization's Scope 3 GHG emissions was a common sentiment. Yet, while uncertainty around calculating accurate Scope 3 GHG emissions exist, they can represent a large portion of total GHG emissions for many companies, and no carve outs should be made in the standards.

Scope 3 GHG emissions are an important aspect of assessing companies' exposure to climate-related risk which is the primary objective of the Proposed Standard (i.e. to help capital markets participants assess investment risk/opportunities and incorporate climate into the decision-making process). Scope 3 GHG emissions are also

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a key driver to reducing emissions by holding suppliers and connected businesses accountable. The interconnectedness of these emissions are important from a supply chain transparency perspective.

However, some prepares commented on the importance of ensuring alignment with the SEC's Final Climate Rule, which excludes Scope 3 emissions. If an additional reporting burden is placed on Canadian public companies, a competitive and cost disadvantage is placed on those preparers. The risk of some companies de-listing in Canada is a real concern due to regulatory burden differences.

In order to alleviate this risk, a materiality threshold should be considered for reporting on Scope 3 GHG emissions, including ensuring a focus on measuring and reporting the most material categories of Scope 3 GHG emissions (vs. reporting all 15 categories of Scope 3 GHG emissions). This should be accompanied by additional guidance for companies on determining the materiality of Scope 3 GHG emissions (leveraging existing guidance like that provided by the SBTi for Scope 3 GHG emissions materiality thresholds).

Preparers also commented on the need for further guidance on target setting. Many companies have made public net zero commitments. This commitment requires an organization to reduce their emissions across Scope 1, Scope 2 and Scope 3 categories. If a preparer has made a public commitment that requires reduction in its Scope 3 GHG emissions, then transparency on how that business plans to achieve its target (i.e. transition planning) should be provided.

A two-year transition relief is sufficient if the CSSB can provide clearer expectations and materiality thresholds for Scope 3 GHG emissions.

About ESG Global Advisors

ESG Global Advisors is a trusted partner of both companies and investors. We are driven by an informed belief that Environmental, Social and Governance issues matter and that businesses that incorporate them into their decision-making stand to thrive over the long-term. We have deep expertise in sustainability and climate-related financial disclosure, including direct engagement with the SASB Standards and TCFD recommendations and the work of the ISSB and the CSSB. Our firm continues to support our clients with meeting evolving sustainability disclosure expectations, both voluntary and mandatory, and is exceptionally well-positioned to support companies across sectors with developing sustainability disclosure and strategic approaches to reporting and disclosure that are aligned with the CSDSs and other ESG reporting frameworks.

Appendix A: Roundtable Participants

ESG Global hosted two virtual roundtable consultations with over 20 preparers representing a range of sectors in the Canadian and global economy including: transportation, mining, financial services, industrials, royalty and streaming, technology, utilities, consumer goods, manufacturing, and professional services.

Participants represented TSX and TSX Venture listed companies (and included several dual-listed companies) ranging in market cap from approximately $17 million to $26 billion CAD and private companies ranging in size. Participants represented a range of different business functions including sustainability, operations, legal, finance, investor relations, and communications and included Board members and senior executives.

Select participant companies included: AGF Management Limited, Altius Minerals Corporation, Blackstone Energy Services Inc., Export Development Canada, Liberty Gold. Other participants in our roundtables elected to keep their company names anonymous, which we have respected in our submission.

The Explorers and Producers Association of Canada™
L'Association des Explorateurs et Producteurs du Canada[MC]

June 10, 2024

Lisa French
Vice-President, Sustainability Standards
Sustainability Standards Board
277 Wellington Street West
Toronto ON M5V 3H2

Re: Consultation Paper and Proposed Canadian Sustainability Standards 1 and 2

Dear Ms. French,

I am writing on behalf of the Explorers and Producers Association of Canada (EPAC) which represents more than 80 upstream oil and natural gas producers that collectively produce more than 65 per cent of the Canada's natural gas and more than 40 per cent of the country's oil.

EPAC appreciates the opportunity to provide feedback in response to the consultation paper published by the Canadian Sustainability Standards Board (CSSB) of Financial Reporting and Assurance Standards Canada (FRAS) and the accompanying draft Canadian Sustainability Disclosure Standards (CSDS 1 and CSDS 2).

Consultation Paper

EPAC and its members were disappointed to see the proposal to adopt the IFRS Sustainability Disclosure Standards (IFRS S1 and IFRS S2) without any meaningful adjustments in recognition of significant concerns expressed by Canadian firms and organizations, including EPAC, related to IFRS S1 and IFRS S2.

These concerns relate to the vagueness of the standards, their scope, the cost versus benefit of implementation, and the capacity of Canadian firms, which tend to be small and medium sized businesses, to comply.

Furthermore, while alignment with IFRS S1 and IFRS S2 may put Canadian firms in line with European and other firms, IFRS S1 and IFRS S2 are out of step with the approach taken by the SEC climate-related disclosure rules in the United States, the direct and largest competitor for Canadian firms. The SEC takes a much more flexible approach and does not, for example, require disclosure of sustainability data, Scope 3 emissions or require climate resilience scenario planning. Therefore, if CSDS 1 and CSDS 2 are to be applied, they will place Canadian firms at a competitive disadvantage.

While EPAC's concerns are addressed more specifically in comments below on the proposed CSDS 1 and CSDS 2, they also relate to the questions posed by the consultation paper. In EPAC's view the proposed criteria guiding adjustments to CSDS 1 and CSDS 2 are insufficient. Given CSSB's claim that they examined and adjusted IFRS S1 and IFRS S2 within CSDS 1 and CSDS 2 based in part on a public interest test, that public interest test is clearly insufficient in addressing the realities of Canadian firms, the reasonableness of IFRS S1 and IFRS S2, and ability of firms to adhere to proposed CSDS 1 and CSDS 2.

Therefore, EPAC would encourage the CSSB to consider a more flexible approach that addresses these principle-based concerns.

CSDS 1 - General Requirements for Disclosure of Sustainability-related Financial Information

EPAC is concerned that CSDS 1 will represent a significant cost burden to Canadian firms, which do not currently have the capacity to adhere to the standards. As these standards are not being applied in the United States, Canada's largest economic competitor, the standards will place Canadian firms at a disadvantage. This concern is exacerbated for the vast majority of EPAC members who are small or medium sized enterprises and do not have in-house capacity to meet the requirements.

Furthermore, the benefit of CSDS 1 to investors is not clear, and likely limited. Investors in EPAC members are simply not asking questions that would be addressed by the specificity found in CSDS 1.

The proposal to align the timing of reporting under CSDS 1 and CSDS 2 with financial reporting is inconsistent with current corporate level emissions data reporting, which is driven by legislative and regulatory requirements. Aligning disclosure requirements with the legal requirements rather than the financial reporting cycle would be more effective, lead to more accurate reporting, and be significantly more efficient for Canadian firms.

The proposed transition relief will not address these concerns.

CSDS 2 - Climate-related Disclosures

The concerns expressed above in relation to CSDS 1 equally apply to CSDS 2. In addition, EPAC is concerned by several specific provisions contained in CSDS 2.

- It is inappropriate to require disclosures and reporting in relation to Scope 3 emissions given these emissions are unknown, unquantifiable, and beyond the control of the reporting entities. Furthermore, there are no agreed upon methods for estimating these emissions, which are more appropriately accounted for as the Scope 1 and Scope 2

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emissions of other firms. The proposed transition relief is not sufficient to address these concerns and the proposed disclosures should be removed or delayed until such time as there are agreed upon standards for estimating and reporting these emissions.

- The proposed requirements for climate resilience scenario planning are vague and their value unclear. Furthermore, the vast majority of Canadian firms are unable to undertake meaningful complex climate scenario planning.
- The exclusive focus on absolute emissions as opposed to net emissions is inappropriate and not reflective of the true activities undertaken by firms.

I trust the CSSB will find this input helpful, and that it will undertake a meaningful review of, and adjustment to, its approach as applied through CSDS 1 and CSDS 2 to address the significant concerns of Canadian firms with respect to the proposed standards.

Sincerely,

Chris Montgomery
Vice President, Policy
The Explorers and Producers Association of Canada