

New Voluntary Standards Set Stage for Mandatory Climate Change Disclosure



On January 1, 2025, the Canadian Sustainability Standards Board (CSSB) standards for climate-related disclosure by public corporations officially took effect. Although voluntary, Canadian Sustainability Disclosure Standards: CSDS 1, *General Requirements for Disclosure of Sustainability-related Financial Information* and CSDS 2, *Climate-related Disclosures* (which we'll refer to collectively as the "Standards") will carry significant weight to the extent they provide a framework for consistent and transparent disclosure enabling investors to evaluate what Canadian companies are doing to promote sustainability and climate change. Here's a briefing on the new Standards and what they portend.

The Need for Consistent Climate Change Disclosure

In today's investment world, a company's record on sustainability and climate change has a material impact on its business and the value of its stock price. This has fueled global efforts to mandate the inclusion of climate-related information in the disclosure filings public companies are required to make under securities laws. For example, last March, the U.S. Securities and Exchange Commission (SEC) adopted new rules requiring public companies to disclose

climate-related information in their annual reports and registration statements. Canada is also developing its own mandatory climate disclosure requirements based on National Instrument 51-107, *Disclosure of Climate-related Matters* (“NI 51-107”) proposed by the Canadian Securities Administrators (“CSA”) in 2022.

However, disclosure under securities laws is only part of the answer. The problem with these laws is that they don’t prescribe a specific framework for climate change disclosure. As a result, disclosures tend to vary from company to company, which makes it difficult for investors to judge what companies are doing and compare one company’s environmental efforts to another’s. The CSSB created the new Standards to respond to the need of investors, regulators and other stakeholders for climate-related disclosure by public companies that’s consistent, transparent, and suitable for apple-to-apple comparisons. Even though they don’t carry the weight of the law, the new Standards will influence the CSA in its efforts to finalize NI 51-107.

What the Disclosure Standards Say

CSDS 1 requires companies to disclose information about their sustainability-related risks and opportunities. CSDS 2 requires them to disclose information about their climate-related risks and opportunities, including climate-related physical risks and climate-related transition risks. The latter standard is of more immediate significance to Canadian companies because the CSA has stated its intent to take a “climate-first approach” in incorporating the Standards into its final version of NI 51-107. Specifically, there are 2 key aspects of CSDS 2 EHS directors need to be aware of.

1. Mandatory Disclosure of Scope 3 GHG

Emissions

Scope 3 requirements provide for disclosure of greenhouse gas (GHG) emissions in over a dozen categories running up and down a company's value chain that makes up the company's carbon footprint, including emissions from upstream and downstream transportation, employee commuting, business travel, and use of sold products. CSDS 2 requires companies to disclose not only their absolute Scope 3 GHG emissions, measured in accordance with the Greenhouse Gas Protocol, but also more detailed information, including the specific categories of Scope 3 GHG emissions.

2. Mandatory Disclosure of Scenario Analysis Results

Under CSDS 2, companies must use and disclose the results of a discipline known as climate-related scenario analysis that assesses their strategic and operational climate resiliency under certain scenarios. Requiring disclosure of scenario analysis will allow investors to understand the resilience of a company's strategy and business model to climate-related changes, developments, and uncertainties. But scenario analysis is also expensive, and critics claim that its lack of standardization reduces its value while noting the U.S. SEC didn't require under its own rules.

What Happens Next

Although they offer a framework for consistent climate-related disclosure, the Standards are voluntary. To incentivize adoption, the Standards provide companies who adopt CSDS 2 with a 3-year transitional relief period during which they're not required to disclose Scope 3 GHG emissions or the quantitative aspects of climate-related scenario analysis. This sweetens the deal proposed by the initial draft which provided for only 2 years of transitional relief on Scope 3

GHG emissions disclosure and no transitional relief on use and disclosure of climate-related scenario analysis.

Takeaway

Companies that choose not to follow the Standards will need to keep a close eye on the CSA and how much of the framework it incorporates into the finalized version of proposed NI 51-107. It's worth noting that right after the finalized Standards were published on December 18, 2024, the CSA issued a press release announcing its intent to publish a revised version of NI 51-107, even though the proposed standard has already undergone one round of public comments. However, concerns remain among the corporate community that the Standards are overly burdensome, particularly to smaller companies. There are also significant objections to the Standards' liability implications. It's far from clear how these concerns will be resolved in the finalized version of NI 51-107.