Canadian Sustainability Disclosure Standards (CSDS) 2

– status check and way forward for the Canadian market

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Introduction

Companies communicate sustainability-linked risks and opportunities to internal and external stakeholders through different voluntary initiatives and multiple reporting frameworks. However, multiple frameworks hinder comparative analysis between companies and do not always cater to the information needs of investors, lenders, and creditors. In 2021, the International Financial Reporting Standards (IFRS) established the International Sustainability Standards Board (ISSB) to plug these gaps by developing IFRS Sustainability Disclosure Standards[1]. In response, the ISSB published the IFRS S1 and IFRS S2 sustainability standards in 2023[2]. The IFRS Standards are meant to consolidate existing frameworks to enable the establishment of a global baseline and comparative framework for corporate sustainability reporting. As of January 2025, more than 20 jurisdictions including Canada have taken steps to incorporate ISSB standards in their sustainability reporting frameworks[3].

In Canada, the Canadian Sustainability Standards Board (CSSB) was setup under the aegis of Financial Reporting & Assurance Standards Canada (FRAS) to advance the development and adoption of standards that align with the ISSB baseline standards, with adjustments made for the Canadian market[4]. In 2024, the CSSB carried out stakeholder consultations for the development of CSDS and in December of 2024, released the final Standards - CSDS 1, General Requirements for Disclosure of Sustainability-related Financial Information, and CSDS 2, Climate-related Disclosures Standards[5]. The CSDS went into effect as of January 1, 2025, and

[1] https://www.ifrs.org/groups/international-sustainability-standards-board/
[2] https://www.ifrs.org/news-and-events/news/2023/06/issb-issues-ifrs-s1-ifrs-s2/
[3] https://www.ifrs.org/use-around-the-world/use-of-ifrs-standards-by-jurisdiction/
[4] https://www.frascanada.ca/en/cssb/about
[5] https://www.frascanada.ca/en/sustainability/documents/cssb-ed-csds-1

contain several elements related to the identification and management of sustainability risk management[6]. In this paper we provide a status update of the Canadian market for these standards, focussing on two of the most challenging areas of disclosure in CSDS 2 –climate-risk scenario analysis and the disclosure of Scope 3 (value-chain) emissions.

While the urgency to quantify climate-related risks and opportunities has led to progress in climate-disclosures in recent years, due to evolving methodologies and related data constraints companies are at different stages in their climate reporting. Since climate-disclosures vary in between beginner and advanced, it is key for companies to assess their readiness compared to the market, peers, and domestic disclosure standards. With the recent finalization of the Canadian Standards, we believe this paper is timely and identifies how far along the Canadian market is in terms of the CSDS 2 Standards. We also provide overall recommendations on how the CSSB, regulators, and reporting entities can use the three-year transition period to firm up their climate disclosures. Although sustainability practitioners are well-aware of the slow pace of adoption of climate scenario analysis and Scope 3 emissions disclosure by companies, this study aims to provide market-specific colour to CSDS 2 requirements. This assessment is also important for investors to identify the baseline alignment amongst investee companies with the final Canadian standards and track progress in the coming years. Finally, we hope that this analysis informs regulators like the Canadian Securities Administrators (CSA) as it considers adoption of the CSDS in its mandatory disclosure requirements[7]. As per our analysis of most recent disclosure sets, 15% of TSX Composite companies are aligned with the climate-scenario disclosure requirement of CSDS 2[8]. In terms of Scope 3 disclosure, 20% of TSX Composite companies have begun the work to align with the relevant CSDS 2 requirement[9]. The methodologies for how we arrived at these findings for each of the key requirement are discussed in the Study Overview and respective Methodology sections below.

While the CSDS 2 requirements are voluntary until mandated by provincial and territorial regulators, these have been developed to standards that can be implemented today and that will encourage companies to start disclosing voluntarily. Additionally, this analysis of the status of the Canadian market is also relevant to current and proposed regulatory developments that mandate companies to report on their climate-related risks and opportunities.

[6] https://www.frascanada.ca/en/sustainability/effective-dates
[7] https://www.securities-administrators.ca/news/csa-issues-market-update-on-climate-related-disclosure-project/
[8] CDP (As of April 2024)
[9] MSCI, 2023

Below we provide a snapshot of climate-disclosure requirements in Canada that potentially and currently overlap with the CSDS 2 requirements:

Regulation	Overlap with CSDS 2 standards	Status
Canadian Securities Administrators' (CSA) revised climate disclosure rule	The CSA has said that it will consider the CSSB standards as it works towards a revised climate-related disclosure rule that would be mandatory for Canadian issuers[10].	
Office of the Superintendent of Financial Institutions' (OSFI) Guideline B-15 on Climate Risk Management	Requires Federally Regulated Financial Institutions (FRFIs) to – A. Use climate scenario analysis to assess impact of climate-related risks on its risk profiles, business strategy, and business model. B. Identify and collect greenhouse gas emissions (GHG) data, including scope 3 emissions to inform risk management and decision-making[11].	

Background: Industry response to CSDS 1 and CSDS 2

Consistent and comparable climate reporting by Canadian companies is vital to investors, lenders, and creditors, and to help keep Canada competitive in the global race for climate capital. The 2024 Exposure Draft of the Standards released by CSSB for stakeholder feedback included immediate implementation of disclosure requirements for climate-scenario analysis and a two-year transition relief period for disclosure of Scope 3 emissions[12]. In its response to this consultation, BMO Global Asset Management (GAM) had recommended that the disclosure requirements be applicable at the earliest – immediately for climate-resilience disclosure and at most a one-year transition relief for Scope 3 emissions. This favoured a "progress over perfection" approach along with safe-harbour provisions that facilitated adoption. As per the Feedback Statement released by the CSSB in Fall of 2024, around half of all respondents had recommended longer relief periods for Scope 3 reporting and many were in favour of removing this requirement altogether or to make it optional[13].

The final Standards released in December of 2024 included a three-year long transition relief period for disclosure of both climate resilience (climate-scenario analysis) and Scope 3 emissions, starting January of 2025[14]. Additionally, the draft CSDS 2 standards allowed companies to report in a manner "commensurate with its circumstances", and even starting with qualitative disclosures (as opposed to quantitative reporting requirements of the CSDS 2). Specifically for climate-scenario analysis, the three-year transition relief is only for quantitative factors and issuers are expected to start reporting on qualitative factors starting 2025. For Scope 3 emissions, while these were not expected to meet audit standards the deferral would delay the practical work required to identify and estimate material emissions. As such, we believe that the three-year transition period delays the

[10] https://www.securities-administrators.ca/news/csa-issues-market-update-on-climate-related-disclosure-project/
[11] https://www.osfi-bsif.gc.ca/en/guidance/guidance-library/climate-risk-management#toc1.3
[12] https://www.frascanada.ca/en/sustainability/documents/cssb-ed-csds-1
[13] https://www.frascanada.ca/en/sustainability/projects/adoption-csds1-csds2/2024-feedback-statement
[14] https://www.frascanada.ca/en/sustainability/projects/adoption-csds1-csds2

multi-year and iterative learning process that climate-risk disclosure entails and subsequent issuer alignment with these standards.

Study overview

The goal of this study is to identify the status quo of the Canadian market for the climate-resilience and Scope 3 emissions' disclosure requirements of the CSDS 2 Standards. We look at aggregate and sector-specific climate-disclosure data of the Canadian market and its sectors and contrast these with the CSDS 2 requirements. For our assessments, we assume the TSX Composite and its constituent sectors as representative of the Canadian market. Climate disclosures of related risks and opportunities are embedded in the value-chain of companies, in addition to their own operations. This is why we also believe that the largest companies in the market leading the charge would pave the way for Small and Medium Enterprises (SMEs), furthering our focus on the TSX Composite.

Given that overarching guidance for assessing climate-resilience via climate-scenario analysis has been around for several years, being part of the Task force on Climate-related Financial Disclosure (TCFD) requirements since at least 2017 [15], we set the bar high in our study for this requirement to the best-practice expectations prescribed by the CSDS 2. In terms of Scope 3 emissions, to account for methodological challenges and the market's expected deviation from best practice and the Standards' expectations, we adopt a moderate approach whereby *any* Scope 3 disclosure is considered sufficient for a company to be included amongst those that disclose Scope 3 emissions. In practical terms, we expect most (if not all) companies to be in a 'yet to align' state with CSDS 2's Scope 3 reporting requirements in their entirety. However, we structured this part of the study to be in sync with our *progress over perfection* approach to climate disclosure, and to acknowledge fledgling efforts made by companies for Scope 3 disclosure. Below we discuss the parameters, methodology, results, and takeaways from our market assessment of these CSDS 2 requirements.

Climate resilience

Climate change poses multifaceted physical (such as extreme weather events) and transition (arising from shifts toward a low-carbon economy) risks. Increasing temperatures would put essential infrastructure and capital assets at risk to extreme weather events such as wildfires and floods. At a macro level, investors, lenders, creditors, and insurers are exposed with investment, debt, and insured assets prone to these transition and physical risks. Climate-scenario analysis helps entities assess their resilience towards these risks and identify opportunities across a range of plausible climate scenarios. Each scenario is based on conditions defined as per increased average global temperatures. These conditions may include physical, policy and market implications at different levels of temperature changes. In general, scenarios are meant to be used when there is uncertainty, and modelling helps draw a picture of what might happen. The idea is to not pick just one scenario, but to assess that if any were to occur, which behaviours would help cope with

[15] https://assets.bbhub.io/company/sites/60/2021/10/FINAL-2017-TCFD-Report.pdf

that scenario. The goal is to be able to narrow down on behaviours – in this case, long term-strategic corporate actions - that would help the entity successfully maneuver each scenario. This facilitates planning for and mitigation of uncertain outcomes, including those in a company's value-chain and supports preparedness regardless of which scenario unfolds. The disclosure of the analysis helps investors get an inside-out view of climate-change induced risks and how the company believes it can mitigate these in the long run.

CSDS 2 has provided a three-year transition relief for companies to disclose climate-scenario analysis that include quantitative factors. This was provided mainly to allow reporting entities time to build the skills capacity and address data limitations. The transition relief does not extend to qualitative analysis, and we hope that with sufficient proportionality measures in place, companies are encouraged to start reporting on their climate-resilience from the 2025 reporting period.

"Many of Canada's largest companies are already integrating scenario analysis into their strategic planning, recognizing its value in managing climate-related risks and uncovering new market opportunities. With CSDS 2 aligning with global best practices, these businesses are well-positioned to maintain their competitive edge while enhancing investor confidence. For companies still exploring scenario analysis, getting started today can provide valuable financial insights, improve risk management, and support long-term business resilience." – Pratima Divgi, Head of Capital Markets, North America, CDP

Methodology

This assessment of TSX Composite companies undertaking and disclosing climate-scenario analysis is based on company-disclosed sustainability data for 2023 reported to CDP. We bucket the company-level data as per the constituents of the TSX Composite and that of its underlying sectors. This helps us quantify market-level alignment and identify sectors that lead and lag in their climate-resilience disclosure.

To be consistent with CSDS 2 requirements on climate resilience, we define a company as undertaking a climate scenario analysis if it meets the three key criteria listed below. From the companies that carry-out climate-scenario analysis, we identify the number of companies that disclose the results of the analysis.

CSDS 2 requirements for climate-scenario analysis disclosure –

1. The analysis includes a 1.5°C scenario amongst the range of scenarios considered.
2. It incorporates quantitative elements.
3. It covers the company's entire operations.

Takeaways

- **Companies are more ready than initially thought, and disclosure requirements can be phased in to start with large cap companies.**
  Methodologies for climate-scenario analysis that include quantitative factors and the 1.5 degree C scenario are more widespread than anticipated at the beginning of this study, with over 50% of TSX Composite companies having disclosed to CDP that they have carried out this analysis internally[16]. Regulators should consider this as positive evidence that the market and especially large companies are in a good position to comply with quantitative requirements (for which the CSSB has allowed a three-year transition relief period) of the CSDS 2. Given this, our recommendation to regulators such as the CSA is to consider phasing in disclosure requirements based on company size or a similar criterion, beginning with large cap companies. While the proposed three years of transition relief may be appropriate for small to medium sized enterprises, most large cap companies have already made substantial progress through their own internal analysis.
- **Some sectors are further ahead than others, and a phased approach by sector would help the laggards catch up and SMEs to build capacity.**
  Further, phased disclosure of climate-scenario analysis could enable leading sectors like Consumer Staples, Consumer Discretionary, Financials, Utilities, Industrials and Materials to continue improving disclosure while encouraging laggard sectors like Conventional energy and IT sectors to start the necessary work. Either approach would account for SMEs' skills capacity and lay-out expectations from large companies to lead.

Meanwhile, investors need to focus on public disclosure from TSX Composite companies that have carried out internal climate-scenario analysis without waiting for the three-year transition relief period to expire. We expect efforts to encourage disclosure of these internal climate-scenario analysis will catalyze progress by companies that are yet to begin or have undertaken a partial analysis.

- We also recommend that the CSSB prioritize guidance development for sectors that lag in conducting quantitative climate-scenario analysis while drawing from expertise from those that lead the market. Additionally, companies should lean on their industry associations to help with standardization and technical support.

Study: Current state of the TSX Composite

While climate-scenario analysis requirements and methodologies have long been part of voluntary climate-disclosure requirements like TCFD, these rarely appear in corporate climate reporting. Disclosure of climate-scenario analysis has been a long-standing ask of corporate issuers and is a topic that is routinely raised by Canadian institutional investors, including BMO GAM, during climate engagements. During these engagements we note that while some companies report that they have carried out a climate-scenario analysis, the details and results of this analysis are most often not disclosed. In the absence of this disclosure, investors are unable to assess whether a company has considered all plausible, and specifically the 1.5-degree Celsius

[16] CDP (As of April 2024)

climate scenarios in their assessment. Inclusion of factors such as quantitative parameters that consider the impact of climate change on company-wide operations using numerical data sets is also unclear in most cases.

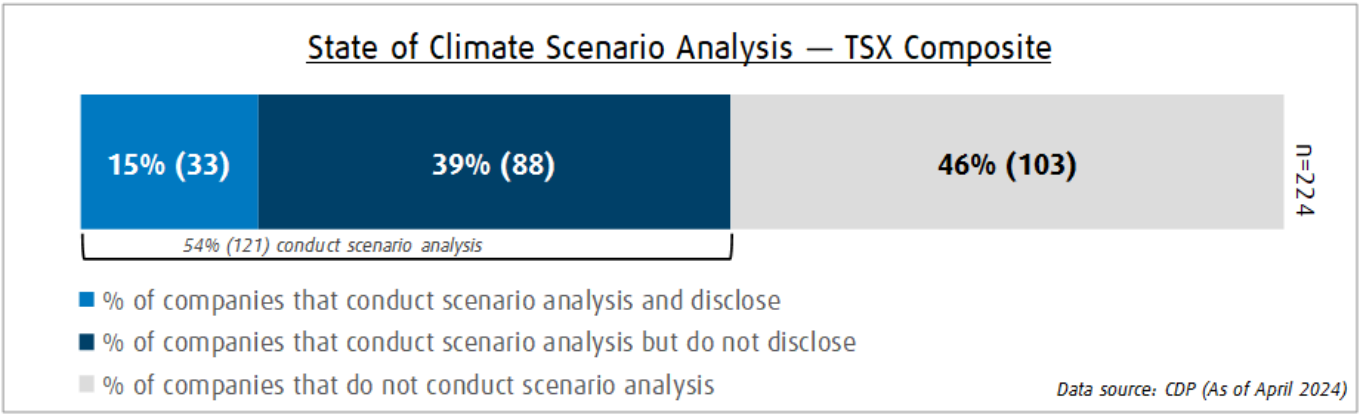

Figure 1

Of the total (n) 224 companies in the TSX Composite, 54% (121) companies conduct a CSDS 2 aligned climate-scenario analysis[17]. Of these 121 companies, only 33 disclose the details of this analysis. This means that only 15% (33 out of 224) companies on the TSX Composite are aligned with the climate-resilience disclosure requirements of the CSDS 2. However, given that for this assessment we replicated the ambitious CSDS 2 requirements for climate-resilience disclosure, we were happy to see that over half of TSX Composite companies have reported carrying out what can be considered a robust analysis of their climate-related risks and opportunities. This means that methodologies have proliferated in the market, that majority of the companies have done the work and that future efforts by investors and regulators can encourage these entities to disclose the results of their analysis. While in this study we only considered companies that carried out a CSDS 2 aligned climate-scenario analysis, the number of companies that are getting started in assessing their climate resilience is likely higher. This is aligned with our (and the CSSB's) belief that in the beginning stages, disclosures may not necessarily include all key factors while each company navigates its unique context. We now dive into our sector analysis of the TSX Composite to determine which lead and lag and accompanying insights.

Study: Sector analysis

The climate-related risks that a company is subject to is rooted in its operations and its sector. A climate-scenario analysis considers the outcomes of climate-change driven changes to a company's operating environment. These include expected changes in policy, regulation, product demand, and consumer preferences. Evidently, sectors that lead in carrying out climate-scenario analysis have greater visibility on the impact these changes may have on their business viability and their ability to maintain profitability over time.

[17] *Ibid*

Some sectors would be more vulnerable to regulatory outcomes and shifts in consumer demand as the transition to a Net Zero world unfolds.

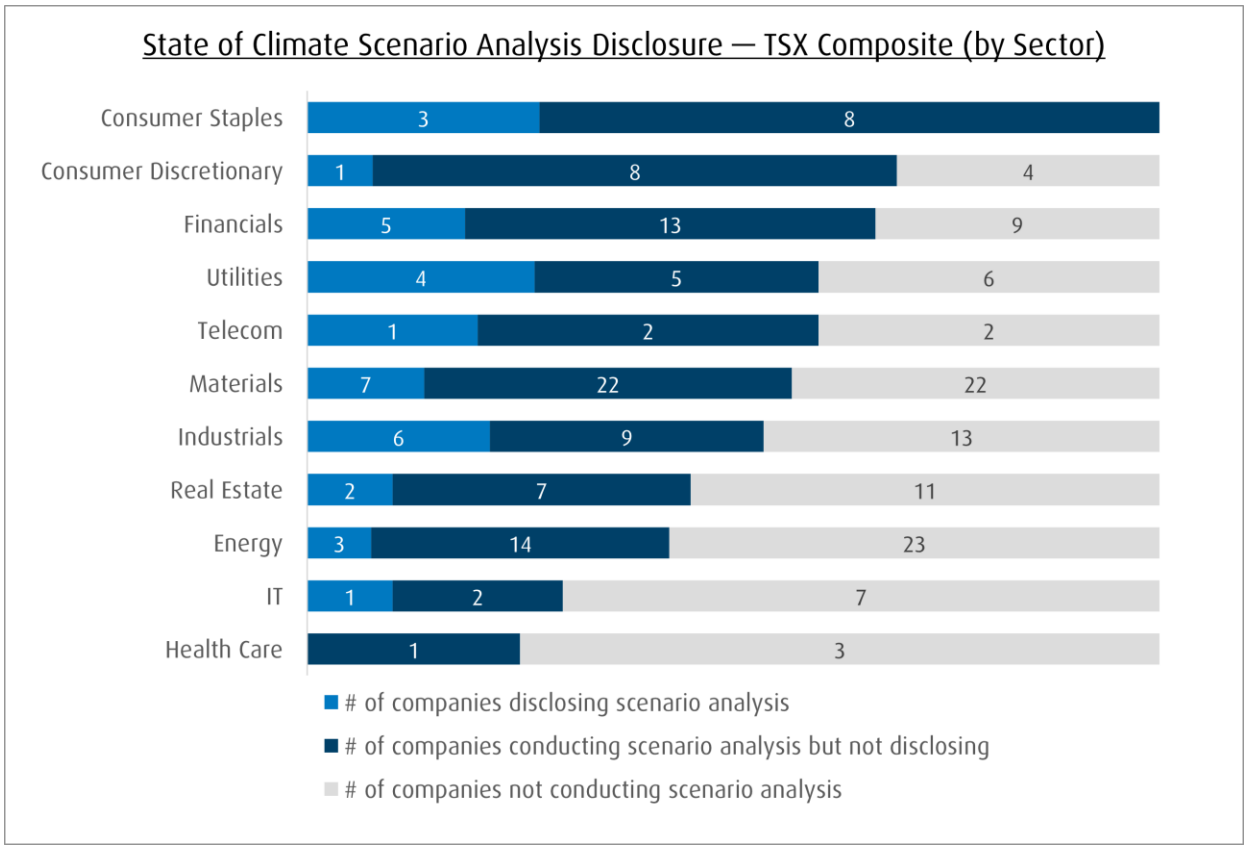

Figure 2

Our data analysis shows that sectors like Consumer Staples, Consumer Discretionary, Financials, Utilities, Industrials, and Materials are leading in terms of the number of constituent companies that have carried out a quantitative and 1.5 degree C aligned climate-scenario analysis. These include most of the companies in each of these sectors. Encouraging these companies to disclose the results of their analysis would put the findings and methodologies in the public domain. This could facilitate the development of guidance for sectors that are currently lagging. According to our analysis, the Energy and IT sectors are amongst the laggards in terms of climate-scenario analysis with only 43% and 30% of companies, respectively, undertaking a CSDS 2 aligned climate-scenario analysis[18]. As such, the CSSB should prioritize development of sector-specific technical guidance for these laggard sectors. Increased disclosure from leading sectors will take little incremental work and this shall benefit the laggard sectors while they develop their own models during the transition period. Methodologies and models continue to evolve, and time is too short to wait for models that are perfect before commencing the required work.

[18] *Ibid*

Scope 3 emissions

Reliable emissions inventories help identify emissions' sources and manage climate transition risks by targeting abatement and decarbonization efforts and tracking of progress. Accounting Scope 3 (value-chain) emissions provides attribution and visibility of carbon emissions in the upstream and downstream value-chains of a company. Tracking Scope 3 emissions helps a company accurately quantify the climate-change impact of its suppliers, customers, and products. This also enables operational efficiency, cost reductions, risk management, reputational and business relationship gains, preparedness for incoming regulation and potentially decreased cost of capital. The final CSDS 2 Standards provide for a three-year transition relief period for companies to disclose material Scope 3 emissions.

Due to current data quality and availability, value-chain emissions remain estimates only. Providing additional time through transition relief does not improve the quality of available data or the resulting estimated emissions. The quality and reliability of value chain emissions estimates will only improve through an iterative process, through which each annual disclosure is refined by using the latest emissions data from the companies' suppliers and customers.

We consider the relief period as an opportunity for issuers to voluntarily disclose their estimated value chain emissions, allowing the company to build capacity and refine their emissions estimates prior to mandatory disclosure. Action in this direction would kick-start the iterative process of Scope 3 inventorying and help ensure that companies (and their value-chain) are prepared when mandatory and compliance obligations do go live. As such, we would encourage companies not to defer action, but instead use the voluntary reporting period as a runway to increase their capacity and accuracy of their scope 3 disclosures. In so doing, the company will both prepare for mandatory requirements while making progress towards more reasonable assurance.

Methodology

Our assessment of Scope 3 emissions' disclosure by TSX Composite companies is based on MSCI sustainability data for the 2023 reporting period (data pulled in August 2024). The MSCI dataset includes publicly disclosed emissions data, along with estimated emissions modelled by MSCI. While company disclosures may be partial in nature, the modelled emissions are estimates prepared by MSCI's proprietary models. As per MSCI models, five sectors – energy, utilities, industrials, materials, and consumer staples – account for around 85% of the TSX Composite's aggregated estimated emissions [19]. Therefore, the sector analysis in this study focuses on these five sectors.

We assessed the current state of Scope 3 emissions disclosure on the TSX Composite with the following steps: *Firstly*, we distinguish between modelled Scope 1 and 2 (operational) and Scope 3 (value-chain) emissions as percentages of total estimated emissions.

[19] MSCI, 2023

Secondly, we identify the percentage of sample companies that disclose operational and Scope 3 emissions*. *Thirdly*, for the TSX Composite we contrast the modelled Scope 3 emissions in million tons of CO2 equivalent (MT CO2e) with those disclosed by the sample companies to identify the gap between disclosed and modelled Scope 3 emissions.

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* *Caveat - in terms of companies considered to be self disclosing Scope 3 emissions, we include in this companies with even partial Scope 3 disclosures.*

Takeaways

- **Efforts by large Canadian companies to identify their Scope 3 emissions would have a cascading effect on carbon inventories and abatement measures of SMEs and the overall market.**
  Currently, companies that are inventorying their Scope 3 emissions are estimating emissions from their upstream and downstream value-chains. According to the data analysis, 87% of TSX Composite companies' aggregate estimated emissions are concentrated in the value-chain with 67% of total estimated emissions downstream[19]. In the case that larger companies require participants in their value chain (consisting companies of all sizes including SMEs) to disclose their Scope 3 emissions, this would help all market participants, regardless of their size, to improve their respective disclosures. For example, AstraZeneca requires its supply chain partners to disclose their emissions and commit to carbon abatement measures[20].
- **External models can provide only rough estimates of where emissions are concentrated in a market, engagement with value-chains will reduce this reliance over time.**
  With aggregate emissions' disclosure by around a fifth of all TSX Composite companies accounting for 40% of modelled Scope 1, 2 and 3 emissions, there is a high likelihood of real-world emissions being significantly larger than the estimates. This has implications for climate policy as policy initiatives would be designed and paced based on a lower magnitude of aggregate emissions and cause further delay to urgent climate action. Ultimately, reporting entities are best placed to drive engagement with their value-chains and aggregate real emissions and reduce reliance on external models. With each successive disclosure the gap in between disclosed and modelled Scope 3 disclosures would reduce.
- **Market-wide and cross-sector knowledge sharing will be key to enhancing system-wide Scope 3 inventories by facilitating knowledge sharing**.
  For instance, this would be key between leading sectors such as Utilities and Materials and lagging sectors such as Energy and Consumer Staples. We call on the CSSB to cross-leverage existing competencies in these sectors as they work to develop guidance for Scope 3 disclosure. After all, Scope 3 emissions' disclosure is an iterative process and provisions like safe harbour clauses can encourage companies to start the process of progress until perfection is reached.

[20] https://www.astrazeneca.com/sustainability/environmental-protection/ambition-zero-carbon.html

Study: Current state of TSX Composite

Standard setters, investors and companies would agree that disclosure of Scope 1 and 2 (operational) emissions are table-stakes. Companies that do not yet disclose these emissions are outliers that lag sector and market peers, especially given that tracking emissions from internal operations (and from the energy used to power those operations) is relatively straightforward. However, Scope 3 (value-chain) emissions are challenging for reasons mentioned in the above section.

It is well acknowledged that Scope 3 emissions account for a large chunk of the Canadian economy's aggregate emissions. This can be attributed to the resource and extractives heavy composition of the Canadian economy. It therefore was no surprise when the MSCI model of estimated emissions revealed that Scope 3 emissions account for 87% of the TSX Composite's total emissions[21]. Most of the estimated Scope 3 emissions (and 67% of total emissions) occur in the downstream value-chains of TSX Composite companies. This shows that a large portion of the index's emissions are concentrated in the emissions footprint of its products and downstream of its operations. While this likely is not unique to the Canadian market, it provides clear sight of where decarbonization efforts need to be focused. For starters, Scope 3 emissions accounting would require entities upstream and downstream of an organization to report their own emissions. This would have a cascading effect in the value-chain through enhanced carbon reporting by other supply chain participants, including SMEs.

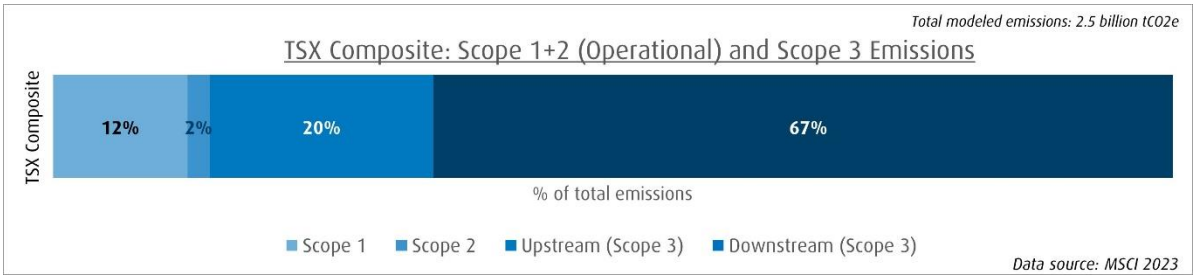

Figure 3

Progress in Scope 3 inventorying helps identify emissions' sources in the value-chain and is a precursor to planning for decarbonization efforts. We routinely engage investee companies on their progress to identify and quantify material sources of Scope 3 emissions and are aware that progress on this front is slow. According to our data analysis, while the disclosure of operational (Scope 1 and 2) emissions is widespread (almost 80% TSX Composite companies disclose these), inventorying of Scope 3 emissions is far less prevalent - only 17% of TSX Composite companies disclose a portion of their Scope 3 emissions[22].

[21] MSCI, 2023
[22] *Ibid*

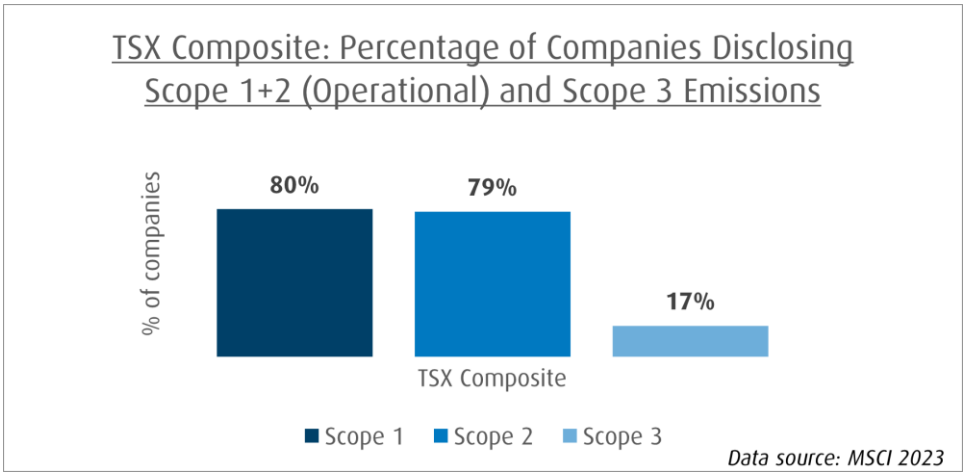

Figure 4

Scope 3 emissions' accounting involves the identification of material categories. The materiality of each category (15 in total) depends on the sector/business model of the company and indicates where exactly in the value-chain its emissions are concentrated. Companies that disclose Scope 3 emissions rarely disclose emissions from all material categories. Companies attribute this to lack of reliable data that would require tracking emissions from the supply chain and product use. We therefore recommend that the 17% figure be taken with a *grain of salt* since this bucket includes companies with Scope 3 disclosure that excludes material categories. Nonetheless, that almost a fifth of the largest companies in Canada have begun efforts to map and account their Scope 3 emissions showcases progress in the required direction. Coordinating with the value-chain is key to Scope 3 emissions' inventorying, identification of material categories (sources) of value-chain emissions. We reiterate that this has the potential to cascade progress to system-wide emissions reduction and decarbonization.

These efforts, that might be considered marginal, lead us to believe that Scope 3 emissions' data can be expected to improve over time. Reporting entities are best placed to drive engagement with their value-chains to a.) be able to attribute sources of emissions and b.) help drive emissions reductions in the broader economy. Entities taking ownership of their emissions' methodologies and inventories would reduce reliance on externally modelled estimates, as is currently the case, and pave the way for more reliable disclosures that are self-disclosed and source-attributed by the reporting entities. To identify the gap between modelled and disclosed emissions, we compare MSCI's estimates of TSX Composite companies' Scope 3 emissions with those self-disclosed by companies in the 17% bucket. We find that the total Scope 3 emissions self-disclosed by 17% of TSX Composite companies were 41% of total MSCI modeled Scope 3 emissions of the index[23]. Simply put, a fifth of TSX Composite companies account for over 40% of modelled Scope 3 emissions of the entire index. From this we infer, that in a scenario where 100% companies were to self-disclose all material Scope 3 emissions today, there is a high likelihood that this total would exceed modeled emissions by a large

[23] *Ibid*

margin. As such, we believe that models are unable to capture all emissions' sources and that actual value-chain emissions are a lot higher than those estimated using external models.

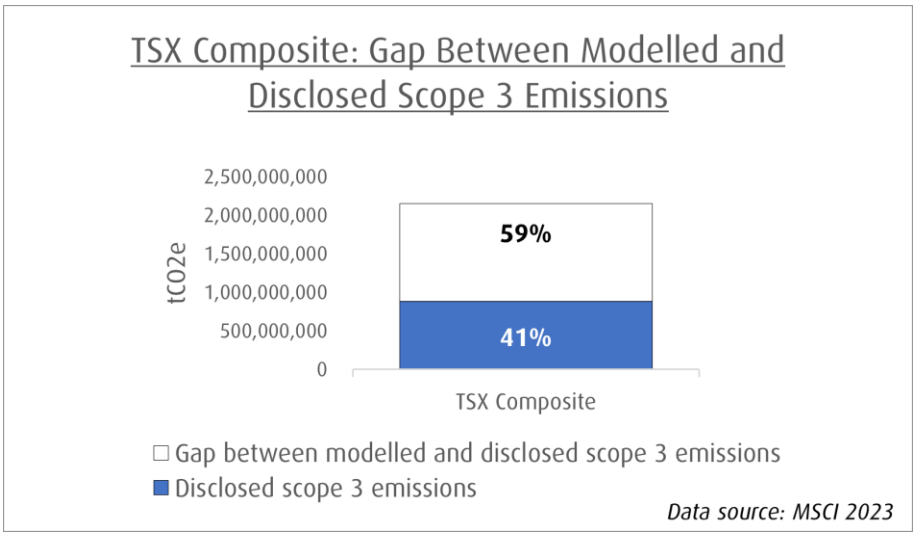

Figure 5

What was anticipated to be a mere gap has highlighted the gross deficiencies in estimates of real-world emissions. This has implications for our shared understanding of system-wide emissions and the sufficiency of the pace of policy and corporate action. The main takeaway is that the largest companies would have to take the lead in mapping emissions in their value-chain to identify and attribute systems-wide emissions. While we believe that the three-year transition relief period provided by the CSDS 2 is excessive, this is ample opportunity for companies to deepen engagement with upstream and downstream entities and to provide training or resources to help improve their data collection and reporting capabilities. Market-wide and cross-sector knowledge sharing would be key to these efforts.

Next, we analyse Scope 3 emissions of the top-emitting sectors in the TSX Composite and identify any synergies and opportunities for knowledge-exchange (these sectors include Consumer Staples, Energy, Materials, Utilities, and Industrials). Progress in emissions inventorying would also allow reporting entities to introduce incentives and subsequently performance conditions to suppliers that include carbon reduction and decarbonization. As such, focused efforts towards Scope 3 inventorying by large-sized companies have the potential to catalyse emissions' reduction up and down the value-chains and system wide decarbonization.

Study: Sector analysis

Our study of modelled and disclosed Scope 3 emissions of high-emitting sectors in the TSX Composite reflects the emissions' profile of the broader index as expected. That the emissions' profile of the market is heavily skewed towards Scope 3 and specifically downstream emissions, is evident in these sectors. According to the MSCI model, except Industrials and Utilities, most of the total modelled emissions of these sectors are concentrated downstream in their value-chains. As expected, 80% of the Energy sector's aggregate estimated

emissions are downstream in its supply chain. Over 50% of Materials and Consumer Staples' emissions are downstream of its operations[24]. However, we do not find a correlation between estimated Scope 3 profiles and the state of emissions' disclosure by these sectors. The Utilities and Industrials sectors are on opposite ends of the Scope 3 disclosure spectrum – the former leads with 53% companies disclosing some form of their Scope 3 emissions with only 7% in the latter [25].

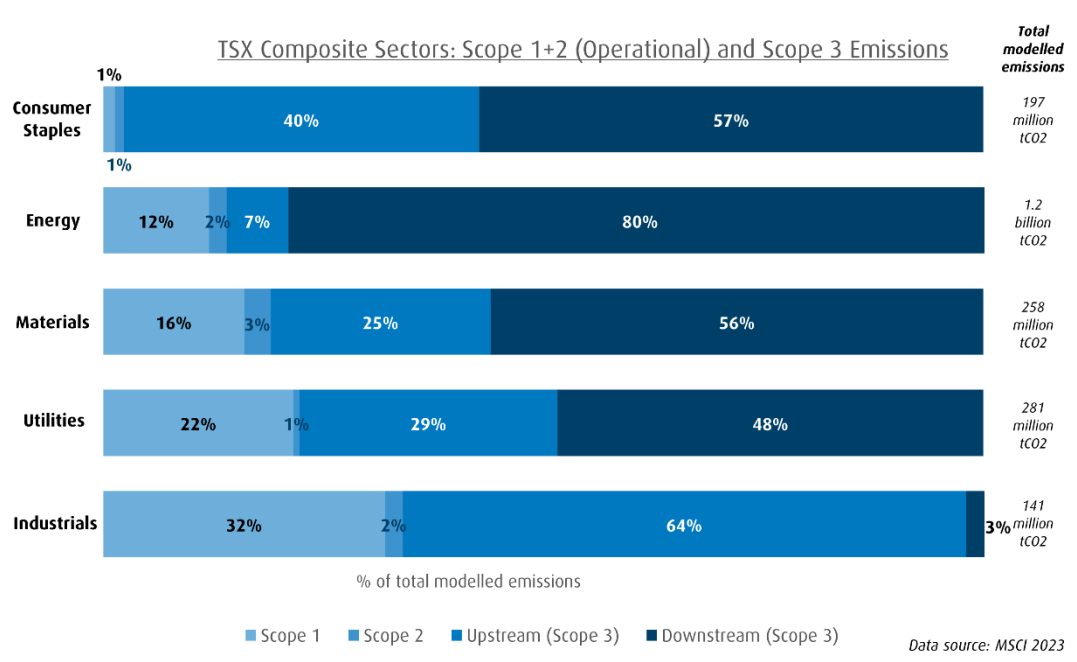

Figure 6

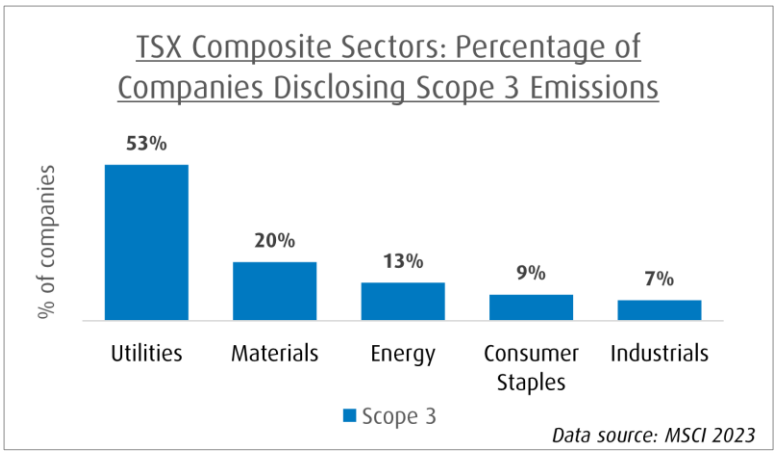

Figure 7

[24] *Ibid*
[25] *Ibid*

Like in the case of climate-scenario analysis, the CSSB needs to prioritize technical support development for sectors that are the greatest laggards – Energy, Consumer Staples, and Industrials. The results of this study can help focus these technical efforts to the part of the value-chain – downstream or upstream – where most of the Scope 3 emissions of that sector are concentrated[26]. Modelled emissions can come in handy to direct focused efforts to develop technical guidance for laggard sectors. Inherent sector limitations notwithstanding, it is possible that cross-sector coordination can help develop methodologies for supply-chain visibility and data accumulation. The leaders such as Utilities and Materials with 20% companies disclosing Scope 3 emissions, can help inform development of value-chain engagement and data accumulation. As such, we encourage the CSSB to cross-leverage existing competencies in leading sectors to develop focused guidance for Scope 3 disclosure by the Energy, Consumer Staples, and Industrials sectors. These efforts would be embedded in the Canadian context and as such, also be aligned with the overall mandate of the CSSB.

Conclusion

The CSSB has taken an important step towards alignment of Canadian sustainability reporting with global standards that will facilitate comparability and consistence in climate disclosures. The finalised CSDS provides for a three-year long transition relief period for disclosure of a quantitative Climate-Scenario Analysis and Scope 3 emissions, exceeding transition relief provided by IFRS in the global ISSB standards. While we believe that this amount of transition relief may be reasonable for small to medium enterprises, it delays climate disclosures for large Canadian enterprises. While some large entities are already subject to mandatory disclosure by virtue of their European presence, we encourage companies to begin efforts towards the requisite work on value chain emissions and scenario analysis on a voluntary basis during the relief period, while methodologies will continue to develop.

However, with regulators like the CSA currently considering these standards for mandatory disclosure and with greater than 80% of TSX Composite companies not aligned with the requirements of the CSDS 2, there is not enough time to wait for perfect methodologies to start the work. Corporate issuers can, during the transition period, invoke safe harbour provisions in their reporting to protect executives from any liability from less than perfect emissions disclosures if these are undertaken in good faith. Where data is lacking, proxy data may be deployed judiciously along with adequate caveats.

As the CSA considers its next steps towards the incorporation of CSDS requirements in its mandatory disclosure framework, we hope that it considers the progress made by the largest Canadian companies in their climate-related disclosures as outlined in this paper. For climate-scenario analysis and its quantitative requirements, we recommend that the CSA utilizes a layered phase-in approach requiring faster adoption by larger companies coupled with a transition relief period for SMEs. A similar approach can be adopted for disclosure of Scope 3 emissions that incentivises larger companies to deepen engagement for expedited emissions' disclosure with their supply chain partners. We look forward to the opportunity to participate in the

[26] *Ibid*

CSA's upcoming consultation on these Standards and advocate for sound and proportionate climate-disclosure requirements for Canadian issuers.

We view the current state of alignment of the Canadian market with positivity and optimism. The good news is that a large percentage are doing some work in this direction and with focused efforts and some adjustments, can incrementally begin to align with CSDS 2. While disclosure remains inadequate, there is evidence that many companies are doing the internal work that aligns with the CSDS 2 requirements, particularly in the case of climate-scenario analysis. Models and scenarios will continue to evolve, and it is important for reporting entities to at least have a baseline readiness of climate-scenario analysis as methodologies evolve. Inventorying of Scope 3 emissions can be a painstaking process involving all levels of the value-chain. Along with other institutional investors, BMO GAM will continue to advocate investee companies to enhance climate disclosures through incremental efforts to create financial value and mitigate financial risks for their clients. We hope that with further technical guidance that the CSSB has promised, along with a regulatory push, the remainder of the market would be able to take advantage of methodologies and data as these become available in the public domain.