Intergovernmental Working Group of Experts on International Standards of Accounting and Reporting (ISAR)

41st SESSION
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Wednesday, 6 November 2024

Agenda item 3. Review of progress in harmonization and practical implementation of sustainability reporting, assurance and ethical consideration

Presented by

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Harmonizing sustainability reporting, assurance and ethical considerations

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Presenter

Thank you
for joining us.

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A Canadian Perspective

Reporting Mandates

- Government of Canada has mandated reporting under TCFD for Crown corporations and federally regulated entities.
- Certain leading municipalities exploring TCFD reporting
- Awaiting a final direction on climate reporting from Canadian Securities Administrators
- Office of the Superintendent of Financial Institutions climate risk management guidelines
- Potential amendments to Canada Business Corporations Act

Anti-Greenwashing

Legislation introduced in June 2024 includes prohibitions relating to:

1. Environmental claims re: products or services
2. Social claims re: products or services
3. Environmental claims relating to a company Burden of proof on companies

The Assurance Gap

01 **Most sustainability reporting is not presently subject to assurance**

02 **Focus on limited scope assurance under ISAE3000**

03 **Uncertain assurance mandates**

Application of the frameworks by the public sector

Voluntary disclosure

- Climate-related disclosure is still voluntary for most public sector entities
- Many benefits are associated with the application of climate-related frameworks. The latest is IFRS S2 *Climate-related Disclosures.*

Adapting corporate standards to the public sector context

- The most recent frameworks (i.e. IFRS S2) and their associated disclosure requirements are designed for the private sector, not the public sector.
- **Any commitment to disclosure should begin with the recognition that full alignment with IFRS S2 may not be achievable** due to its focus on the private sector.
- IPSASB's climate disclosure standard a significant step forward

Application of judgement

- Public sector entities must exercise reasonable judgement interpreting and aligning with private sector specific requirements (e.g. in identifying CR&Os)

***CR&Os = Climate risks and opportunities**

Barriers to Climate-Related Disclosure

01
No standardized framework focused on municipalities

02
Lack of resources
(to disclose and generate information for disclosure)

03
Lack of education and/or information

Lack of education on "how" to disclose and the importance of disclosure

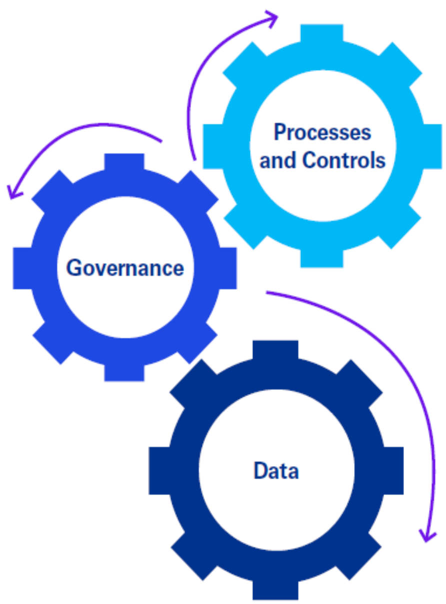
04
Focus on generating climate-related information, plans, and actions

Focus on climate-related data management and planning instead of disclosures and their alignment with standards

05
Concerns with legal liability

Bill C-59 (published June 20) targets "greenwashing" and can present potential liability for publicly disclosed information

06
What else?



Data remains the single biggest challenge to sustainability reporting

The reliability and availability of comprehensive data is an essential foundation for any reporting initiative. Governments need to consider how this data falls under existing data governance models. Data sources must be identified to inform the oversight of climate-related risks, the measurement of financial impacts of severe weather events, as well as Scope 1, Scope 2, and Scope 3 Greenhouse Gas (GHG) emissions. With standards in development on biodiversity, ecosystems and ecosystem services, governments will also need to build inventories of natural assets and measure natural asset condition much like they do for physical infrastructure. Rigorous, comprehensive data is crucial for shaping and reporting on a government's metrics and targets with integrity. Thorough data sets, and the ability to project and forecast from that data are also a key enabler of the scenario analysis required under the sustainability reporting standards.

Processes and controls are essential to the credibility of sustainability reporting

A key objective of the ISSB standards is to support auditable, decision-useful information connected to financial statements. However, a comparison of sustainability reporting with financial statements suggests a significant difference in maturity. Governments have been preparing auditable, general-purpose financial statements for many years. This has allowed processes and controls to be refined and strengthened to support high-quality reporting. Sustainability reporting remains in its infancy and will require governments to build new processes and controls that interface with systems and data sources previously not part of financial reporting. Sustainability-related information must be of the same quality and reported at the same time as a government's financial statements. Processes and controls will be particularly important as assurance requirements are introduced over sustainability reporting.

Effective governance models are critical to a government's sustainability reporting ambitions

Given the broad array of public sector stakeholders, strong governance must be in place to support the alignment of stakeholder objectives, and the linkage of those objectives to sustainability reporting. Senior governance bodies and central agencies of government must be fully invested in the sustainability reporting journey. Board education, the prioritization of ESG on the Board and Audit Committee agenda, and comprehensive policies are key starting points.

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