DELPHI

February 2024

ABCS OF ESG

Guide to North American and International ESG and Climate Disclosure Programs

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Executive Summary

We released our first *ABCs of ESG* guide in September 2022[1] in response to the increasing number of global disclosure frameworks, and the shift from voluntary to mandatory disclosure requirements. Since then, the environmental, social, and governance (ESG) disclosure landscape has evolved significantly. This revised version of our ABCs of ESG guide incorporates key updates and developments so you can navigate the complexities of ESG and climate disclosure heading into the coming year.

Bottom line? Regulators are asking for more information on climate and sustainability risks, and there's less time to develop approaches, as mandatory requirements now start to bite. We want you to be in the know of what's to come, to help set you up on a path for success.

The fastest evolution continues to be in the climate disclosure space: regulators are increasingly shifting towards mandatory disclosure regimes, both within Canada and globally. This reflects the understanding that (1) climate-related risks are closely intertwined with financial risks, and (2) capital markets need access to high-quality sustainability-related financial information to accurately assess risks and opportunities.

Globally, there was progress towards consolidating disclosure frameworks, with the International Sustainability Standards Board (ISSB)'s acquisition of the Task Force on Climate-Related Financial Disclosures (TCFD)[2]. There was also progress on pushing for more accurate and reliable disclosure, with (1) ISSB releasing their inaugural standards, International Financial Reporting Standards (IFRS)[3] S1 and S2, and (2) the Global Reporting Initiative (GRI) releasing its updated standards[4].

The release of the IFRS S1 and S2 Standards was a particularly pivotal development, given they will drive a more unified global approach to ESG and climate disclosure. They now supersede the TCFD and have become the primary framework influencing national and regional regulatory disclosure requirements. These regulators include the Canadian Securities Administrators (CSA), Office of the Superintendent of Financial Institutions (OSFI), U.S. Securities and Exchange Commission (SEC), and the European Commission.

At a national level, North America and Europe reached several important milestones, with the publication of disclosure frameworks that will enter force in 2024 and beyond. While we are still waiting on the release of the final versions of the CSA's Proposed National Instrument[5] and the U.S. SEC's Proposed Rule[6], substantial progress has been made elsewhere:

- OSFI released the final iteration of its Guideline B-15 on Climate Risk Management[7], along with a draft Standardized Climate Scenario Exercise[8], advancing climate risk management and disclosure for Canadian financial services firms.
- In the U.S., California made headlines by enacting climate-disclosure bills, SB 253[9] and SB 261[10], signaling a strong state-level commitment to environmental transparency.
- Meanwhile, Europe continued to lead in ESG reporting and climate disclosure with the European Commission's implementation of the Corporate Sustainability Reporting Directive (CSRD)[11], requiring companies operating both within and outside the European Union to report on sustainability and ESG issues across their operation

As the reporting landscape continues to evolve, the question we hear most from our clients is: how will these ESG and climate disclosure mandates – and others – impact my organization?

We're here to help. Regardless of your sector, jurisdiction, or supervisory body, this guide will help you traverse the complex and shifting terrain of ESG and climate disclosure.

Key takeaways on ESG disclosure in 2023/4:

- Climate and sustainability disclosure is no longer a 'nice-to-have' as the march towards regulated disclosure accelerates and demands from all stakeholders rachet up.
- There is a growing trend towards global harmonization of climate disclosure standards, demonstrated by several national frameworks aligning with the ISSB Standards. This should reduce the reporting burden for firms mandated to disclose in different jurisdictions.
- Mandatory climate disclosure requirements are being extended beyond publicly listed companies to include private entities, broadening the scope of accountability and transparency.
- Despite challenges with data, there is a heightened focus on scope 3 emissions reporting as a key component for evaluating climate-related risks.
- Scenario analysis is also acknowledged as a crucial tool for evaluating climate-related risks across different time horizons, regions and sectors.
- Jurisdictions and organizations that do not align with international standards for ESG reporting are at risk of higher costs of capital and asset depreciation, as stakeholders lose confidence that they are adequately adapting to and mitigating risks from climate change and other sustainability issues.

There is an impending shift towards regulated disclosure for sustainability information, as evidenced by EU regulations and the uptake of ISSB's standards by organizations like the CSA and SEC. This signifies a broader commitment to comprehensive sustainability reporting, extending beyond just climate information.

ESG Reporting Programs at a Glance

Program	The FSB's TCFD Disclosure Recommendations*	ISSB's IFRS S1 and S2 Standards for sustainability reporting	GRI's Universal Standards	PCAF's Financed Emissions Reporting Guidelines	CSA's Proposed National Instrument	OSFI's B-15 Guideline on Climate Risk Management	BC Financial Services Agency's Consultation on Natural Catastrophe & Climate Risk	US SEC's Proposed Rule	California's SB 253 and SB 261 climate disclosure bills	European Commission's CSRD
Jurisdiction	Global	Global	Global	Global	Canada	Canada	Canada, BC	US	California	EU
Covered Entities/ Sectors	All global private and public organizations	All global private and public organizations, with sector-specific requirements	All global private and public organizations, sector-specific guidance in development	All global financial institutions; asset-class guidance on an iterative basis	Publicly listed companies in Canada (with limited exceptions)	Federally regulated financial institutions	Regulated financial services entities in British Columbia	Publicly listed companies trading on U.S. exchanges	SB 253 – Large Companies SB 261 – Companies with >$500 million USD annual revenue	All large companies and all listed companies operating in EU (except micro-enterprises)
Voluntary or Regulatory	Voluntary	Voluntary	Voluntary	Voluntary	Regulatory (Proposed)	Regulatory	Regulatory (Proposed)	Regulatory (Proposed)	Regulatory	Regulatory
Implementation Date	June 2017	January 2024	Revised standards: January 2023	September 2019, (asset class / sector coverage phased in over time)	Not yet determined	2024 – 2025 financial year end (depending on firm size)	Currently unknown (Consultation period closed in Nov 23, currently awaiting follow-up)	Anticipated in 2024	2026 - 2027	Phased in from 2024 to 2029
Information Required	Four pillars of disclosure for climate risks and opportunities. This includes Governance, Strategy, Risk Management, Metrics & Targets.	Material information regarding sustainability-related risks and opportunities, with specific disclosures for climate-related risks using TCFD framework	Disclosure on the organization's impact on the economy, environment, and people.	Data to disclose the greenhouse gas (GHG) emissions associated with a financial institution's scope 3 emissions from its financing activities.	Climate risks & GHG emissions (including scope 3 – or state the reason for omitting)	TCFD-aligned disclosures for climate-related risks; GHG emissions (including scope 3)	TCFD-aligned public disclosures and property-specific impact to real estate customers on property & financial wellbeing from natural catastrophe and climate risks.	Climate risks & GHG emissions (including scope 3 if material or included in targets)	TCFD-aligned disclosures for climate-related risks; GHG emissions (including Scope 3 emissions)	Environmental and social impact of business activities & GHG emissions (including Scope 3, regardless of materiality)
Reporting Timelines	Annual	Annual	Annual	Annual	Annual	Annual	N/A	Annual	SB253: Annual SB261: Biannual	Annual
Scenario Analysis Required?	Yes	Yes	No	N/A	No	Yes	Potentially	Yes	Potentially	Yes
Aligned with GHG Protocol?	Yes	Yes	Yes	Yes	Yes	Yes	N/A	Yes	Yes	Yes
TCFD / ISSB - aligned?	N/A	Yes	Yes	Yes	Yes	Yes	Yes	Yes (expected)	Yes	Yes
Assurance	Limited	Requirements to be determined by jurisdiction	Yes	Not Applicable	No	Limited	No current requirements, but plans for future	Limited – Scope 1 and 2 only	Reasonable: Scope 1 & 2 Limited: Scope 3	Limited in 2026; Reasonable from 2028

*Note: The TCFD disbanded and the ISSB assumed its material, please refer to the ISSB for further information.

The Transition from Voluntary to Regulated Disclosure

Dec 2015
Task Force on Climate-Related Financial Disclosures (TCFD) is formed to help identify information needed by the finance sector to assess and price climate-related risks and opportunities.

Jun 2017
TCFD releases its climate related financial disclosure recommendations.

Jun 2019
Expert Panel on Sustainable Finance recommended implementing TCFD, starting with 'comply-or-explain' requirement.

Sep 2019
Partnership for Carbon Accounting (PCAF) implements the first iteration of their Global GHG Accounting and Reporting Standard

Jun 2021
The Taskforce of Nature-related Financial Disclosures (TNFD) launches, modelled from the TCFD, intending to focus on biodiversity and nature-based sustainability topics.

Jul 2021
The G7 and G20 pledge to promote disclosure recommendations implemented by TCFD in line with domestic regulatory frameworks

Oct 2021
Canada Securities Administrators (CSA) publishes proposed climate-related disclosure requirements.

Jul 2021
GRI approves the new Standards as a global sustainability reporting benchmark.

Nov 2021
The International Financial Reporting Standards (IFRS) forms the International Sustainability Standards Board (ISSB) and states its intention to use the TCFD recommendations.

Mar 2022
The US Securities and Exchange Commission (SEC) proposes a regulatory rule for publicly listed companies to establish climate-related disclosures.

Apr 2022
Office of the Superintendent of Financial Institutions (OSFI) announces they will require mandatory climate disclosure beginning in 2024.

Oct 2022
CSA delays further publication of requirements given developments around proposed requirements from ISSB and SEC.

Jan 2023
The EU brings into effect the Corporate Sustainability Reporting Directive (CSRD). Jan 2023: GRI revises a new set of Standards, with new mandatory disclosures and more inclusion on human rights impacts and due diligence processes.

Mar 2023
OSFI issues B-15 guidance, which sets out climate-related financial disclosure requirements for federally regulated financial institutions.

May 2023
Bill S-211, Fighting Against Forced Labour and Child Labour in Supply Chains Act, received royal assent in Canadian parliament.

Jun 2023
ISSB releases S1 and S2, which set out the disclosure requirements related to sustainability and climate risks and opportunities.

Jul 2023
BC Financial Services Authority (BCFSA) issues a discussion paper on natural catastrophes and climate-related risks (NCCR).

Sep 2023
TNFD releases the first complete set of recommendations and guidance to help the financial sector disclose nature-based issues.

Oct 2023
California enacts two climate disclosure bills, SB 253 and SB 261, and marks a significant milestone in corporate climate reporting and accountability.

Oct 2023
TCFD releases its final report and officially relinquishes its responsibilities to the ISSB at COP 28.

Dec 2023
PCAF updates their Reporting Standard, enabling capital markets to disclose facilitated emissions.

2024
CSA is expected to present the final Proposed National Instrument, likely incorporating scope 3 emissions and scenario analysis.

Jan 2024
ISSB S1 and S2 come into effect, having now subsumed the TCFD standards.

Jan 2024
Bill S-211 takes effect, requiring Canadian institutions to disclose the steps taken to prevent forced and child labour throughout their supply chains.

2024
The SEC's Proposed Rule is expected to be implemented sometime within 2024.

2024
The EU's CSRD begins applying mandatory standards

2024 and Next Few Years
BCFSA plans to release NCCR guidance aligning with B-15. BCFSA may also require disclosure in alignment with TCFD.

2025
The first ISSB S1- and S2-aligned reports are expected.

2025
The first OSFI-B15-aligned disclosures are expected.

2026-2027
Expected implementation date of California's Bill SB 253 and SB 261.

2024-2029
The EU will phase in the CSRD rules.

Global Voluntary Reporting Landscape

TCFD: The End of the Road

Following the launch of the new ISSB Standards, the TCFD released its final Status Report in October 2023, and officially transferred its responsibilities to the ISSB at COP 28 in December 2023. The TCFD has been a critical reporting framework informing national regulatory requirements worldwide. As a foundational element of the new ISSB Standards, the TCFD recommendations are likely to remain aligned with best-practice sustainability reporting under the ISSB.

Jurisdiction	Global
Coverage	All global private and public organizations
Voluntary or Regulatory	Voluntary
Implementation Date*	2017

*This table refers to the active period of the TCFD Framework under the Financial Stability Board. The IFRS Foundation took over responsibilities for climate disclosures from the FSB in Dec 2023, See '**International Sustainability Standards Board's IFRS S1 and S2: A New Era of Global Disclosure Standards'** section below.

The TCFD was established by the Financial Stability Board (FSB) to help deliver on the Paris Agreement's commitment to *"holding the increase in the global average temperature to well below 2˚C above pre-industrial levels and to pursue efforts to limit the temperature increase to 1.5˚C above pre-industrial levels."* In 2017, the TCFD published recommendations that then became the global standard for identifying, mitigating, and disclosing potential climate-related financial risks.

After the new ISSB Standards for sustainability and climate reporting (see page 10 below) were released, the FSB asked the IFRS Foundation to take over the monitoring of climate-related disclosures from the TCFD starting in 2024. The TCFD released its final Status Report in October 2023, and officially passed on its responsibilities at COP 28 in December 2023.

While the TCFD achieved a great deal since its inception, more progress is needed to meet the original goal set by the FSB. According to the final Status Report, 2022 saw only 58% of companies adhering to at least 5 of the 11 TCFD recommendations. Only 4% managed to incorporate all 11 recommendations[12]. The TCFD suggested that several key areas warrant further work by the IFRS Foundation, including:

- **Developing further guidance** on topics such as climate-related physical risk, climate-related scenario analysis, adaptation planning, and scope 3 GHG emissions measurement;
- Focusing on disclosure of the **resilience of companies' strategies** under different climate-related scenarios, including one that aligns with the latest international agreement on climate change

- Focusing on **decision-useful disclosure on other pertinent sustainability topics** such as biodiversity, water, and social issues, and the linkages that exist between the various climate-related issues.

Since the ISSB has integrated the TCFD framework into its standards, the TCFD recommendations and associated guidance remain a crucial source of information on best-practice approaches to climate disclosures. Firms that have used the TCFD framework as a basis for their disclosures will therefore be well positioned to adopt the new standards, as they are incorporated into national regulatory regimes.

Taskforce for Nature-related Financial Disclosures (TNFD)

While many of the reporting standards are focused on climate, biodiversity and nature-based solutions are gaining traction in the disclosure landscape.

The recent launch of the TNFD[13] is an example of this momentum. Modelled after the TCFD framework, the TNFD aims to develop and deliver a standardized risk management and disclosure framework for reporting and acting on nature-related risks and opportunities. This will enable investors, lenders, insurers, and other stakeholders to make well-informed choices and, ultimately, help shift global financial flows away from nature-negative outcomes and toward nature-positive outcomes.

The first version of the Taskforce's integrated risk management and disclosure framework for nature-related issues (v1.0) was released in September 2023. The TNFD is encouraging and supporting voluntary market adoption of its recommendations.

Market participants have emphasized that aligning the TNFD's approach, structure, and language with the TCFD will support early adoption of corporate reporting on nature-related issues. The TNFD has adopted all 11 TCFD recommendations, enabling consistent reporting of nature- and climate-related topics. This alignment not only promotes consistency but also sets the stage for comprehensive sustainability disclosures.

International Sustainability Standards Board's IFRS S1 and S2: A New Era of Global Disclosure

The release of the ISSB Standards has set the scene for a new era of sustainability-related financial disclosures: a shift to universal disclosure requirements that facilitate more comparable and reliable financial information across jurisdictions. These standards focus on the financial materiality of sustainability issues and will likely have significant influence on the future of sustainability disclosure.

Jurisdiction	Global
Coverage	All global private and public organizations
Voluntary or Regulatory	Voluntary
Implementation Date*	January 2024

The ISSB was formed by the IFRS Foundation in Glasgow in 2021 at the UN's 26th Conference of the Parties (COP 26). The ISSB was established to develop a universal set of sustainability reporting standards. The ISSB published its IFRS S1 and S2 Standards in June 2023 in response to calls from users for more consistent, verifiable, and thorough sustainability-related financial information. They came into effect in January 2024.

- IFRS S1: *Basis for Conclusions on General Requirements for Disclosure of Sustainability-related Financial Information* details the disclosure requirements for **sustainability-related risks and opportunities** over short-, medium-, and long-term horizons. Its disclosure framework is based on the four TCFD pillars of Governance, Strategy, Risk Management, and Metrics & Targets.

- The IFRS S2: *Basis for Conclusions on Climate-related Disclosures* supplements IFRS S1 and focuses on **climate-related risks and opportunities. While** both documents were designed to align with TCFD, IFRS S2 is a significantly more comprehensive and robust implementation of the TCFD guidelines[14]. Once a company has applied the IFRS S1 Standards to identify the relevant climate-related risks and opportunities, the IFRS S2 provides specific guidance for generating sound and useful disclosures. IFRS S2 applies to both physical and transition climate-related risks.

The Standards were developed via a transparent process that included a consultation phase, which resulted in more than 1,400 responses. They have garnered international support, including from the FSB (the creators of the TCFD), the International Organization of Securities Commissions (IOSCO), and leaders across the G7 and G20[15].

Under IFRS S1 and S2, companies are required to disclose material information about sustainability-related risks and opportunities with their financial statements. Industry-specific disclosures are also required, providing companies with the opportunity to present how they are addressing risks and opportunities specific to their sector.

The IFRS Standards were designed to ensure interoperability with other global and jurisdictional frameworks. Representatives from several key existing disclosure regimes -- including the TCFD, Climate Disclosure Standards Board (CDSB), Value Reporting Foundation (VRF), Sustainability Accounting Standards Board (SASB), and the World Economic Forum – provided input. Ensuring interoperability is also one of the key reasons why the IFRS Foundation took over the monitoring of progress on climate-related disclosures from the TCFD. Looking forward, the IFRS Foundation has committed to continuing to work closely with other standard setters, including the GRI, to ensure global harmonization of reporting frameworks. We expect this focus on interoperability will result in more consolidation of reporting frameworks in the coming years.

Many jurisdictions, including Canada, are considering formally adopting the new ISSB Standards, which means that firms should consider IFRS S1 and S2 Standards in their disclosure preparations going forward. For example, the Canadian Sustainability Standards Board (CSSB)[16] was set up in 2023 to highlight key issues and facilitate interoperability between IFRS S1 and S2 and any future CSSB standards. Luckily, given the harmonization of IFRS S1 and S2 with most national and international standards, much of companies' existing work on sustainability reporting will be transferable.

International Organization of Securities Commissions (IOSCO) Support for ISSB's Standards

OSCO plays a pivotal role in the global financial regulatory landscape. As the international body comprising the world's securities regulators, IOSCO is instrumental in setting standards for the securities sector. IOSCO collaborates closely with important global entities like the G20 and the FSB to drive regulatory-reform agendas worldwide.

In July 2023, IOSCO endorsed IFRS S1 and IFRS S2 after a rigorous review process.[17] IOSCO concluded that these standards should serve as a global framework for reporting sustainability-related financial information.

IOSCO has called upon its 130 member jurisdictions, which regulate over 95% of the world's financial markets, to consider adopting or aligning with the ISSB (or aligned) Standards. This recommendation aims to foster consistent and comparable climate-related and other sustainability-related disclosures for investors across jurisdictions. It represents a major milestone in global financial sustainability-reporting efforts.

GRI: A progressive step for corporate transparency

The GRI standards support transparent reporting on companies' impacts on people and the planet. These are distinct from, but complementary to, other frameworks that focus on the impacts of sustainability issues on financial performance. Advancements in the GRI standards and harmonization with IFRS and CSRD mean it is likely to continue to be a core framework for sustainability reporting.

Jurisdiction	Global
Coverage	All global private and public organizations, sector-specific guidance in development
Voluntary or Regulatory	Voluntary
Implementation Date	Revised standards: January 2023

The GRI standards provide companies with a common language to communicate their impacts on society and the environment. In January 2023, the latest version of the GRI standards – developed in 2021 – came into effect. These standards have evolved significantly since 2016, when the GRI first released its foundational reporting guidance. The revised standards include:

(1) **Universal Standards,** which require companies to assess and report on aspects of their value chain, governance, and materiality processes.

(2) **Sector Standards**, which provide guidance on sector-specific material topics and advise on relevant disclosure frameworks for each sector. The GRI has currently published Sector Standards for three sectors: (1) oil and gas, (2) coal, and (3) agriculture, aquaculture, and fishing[18]. These have been prioritized based on their significant sustainability impacts. Priority sectors for 2024-25 include mining, textiles & apparel, banks, insurance, and capital markets.

(3) **Topic Standards,** which advise on relevant disclosure frameworks for each material topic. Prioritized topics include biodiversity, labour-related topics, climate change, and economic impacts.[19]

The most substantial changes in the GRI standards are the addition of more detailed reporting standards on human rights and due diligence processes. Companies using GRI should report on (1) human rights policies, and how these reflect the expectations of international organizations (e.g., UN Guiding Principles on Business and Human Rights)[20], as well as (2) how due diligence is undertaken to identify potential impacts of firms' actions.

GRI also updated its rules to include how to indicate full or partial implementation of the standards. Companies should now signal whether they are reporting *"in accordance with"* the standards, which means that all requirements have been implemented and implies a higher degree of credibility; and reporting *"with reference to"* the standards, which means not all requirements have been met. Providing a rationale for topic omissions is now also required.

The GRI has a global reach and remains a key part of the evolving disclosure landscape for climate and sustainability risks. The ISSB will continue to ensure interoperability between its standards and the GRI. The GRI was also involved in the drafting of the EU's new European Sustainability Reporting Standards (ESRS) under CSRD[21]. In January 2024, GRI released it's new Biodiversity Standard which are consistent with the TNFD recommendations and ESRS standard on biodiversity and ecosystems. Organizations that are required to comply with GRI will therefore have a solid foundation to apply the ISSB or CSRD standards in future.

Canadian Mandatory Disclosure Landscape

Canadian Securities Administrator (CSA)'s Proposed National Instrument: First-ever Climate Disclosure Mandate for Canadian Publicly Listed Companies

Since publishing its proposed National Instrument in October 2021, the CSA has been actively considering how international developments – particularly the SEC's proposed rule amendments and publication of the ISSB Standards – might influence their approach.22 The release of the final rules is expected in 2024, and we predict the revised version will better align with these new standards.

Jurisdiction	Canada
Coverage	Publicly listed companies in Canada (with limited exceptions)
Voluntary or Regulatory	Regulatory
Implementation Date	Not yet determined

Since the release of the CSA's proposed National Instrument (NI 51-107, Disclosure of Climate-related Matters)[23] in 2021, there have been several major developments in the climate-related reporting space. These include SEC's proposed rule for climate-related reporting standards (see below for more information) and the ISSB's IFRS S1 and S2 Standards.

While largely aligned with the ISSB and TCFD recommendations, the proposed Instrument diverges in a few key areas. Examples include not requiring scope 3 emissions disclosures or scenario analysis. This has led to significant pushback during stakeholder consultations, with concerns over potential impacts on global competitiveness, transition plan development, and risks for capital providers.

Stakeholders stressed the importance of aligning Canadian disclosure standards with other standards, such as IFRS S1 and S2 and the SEC's proposed role. Discrepancies between the CSA and the SEC proposal could lead to increased reporting burden for firms operating in different regions.[24] Recognizing these challenges, the CSA, in its 2022-2023 Year in Review Report [25], acknowledged the need for more consistent and comparable climate-related information.

Although an official announcement regarding the release date of the final proposed Instrument has not yet been made, we anticipate that the CSA will present it in the first half of 2024. We also expect that the final Instrument will be significantly influenced by the new ISSB Standards and global emphasis on the need for robust, decision-useful climate disclosures (which incorporate disclosure of scope 3 emissions as well as scenario analysis).

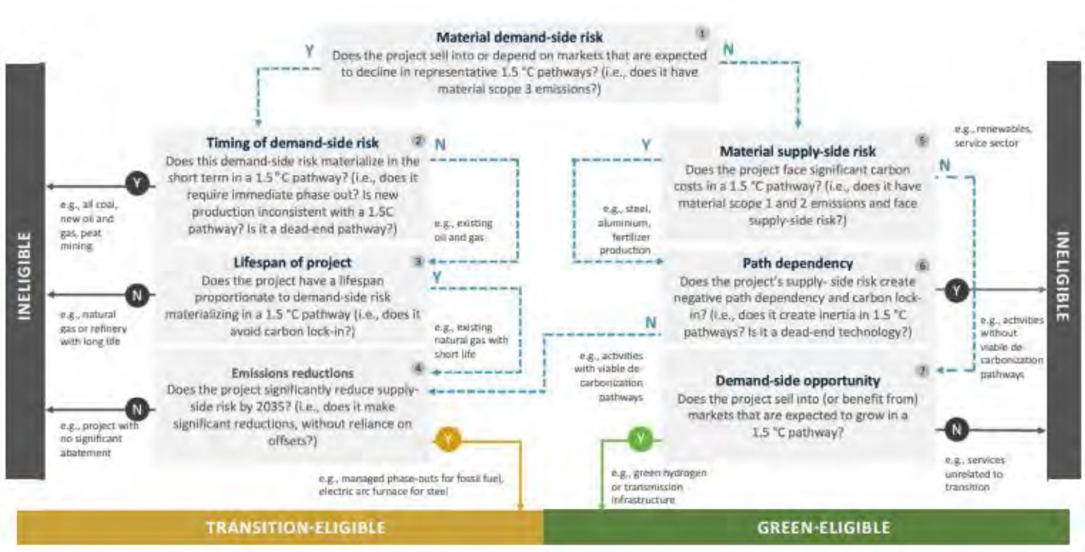
Sustainable Finance Action Council (SFAC) releases a Taxonomy Roadmap Report

SFAC, established by the Canadian government in May 2021, aims to integrate sustainable- finance practices into the Canadian financial sector. Its primary focus is on enhancing climate-related financial disclosures, aligned with the TCFD recommendations, while also prioritizing gender and diversity reporting. As a center of expertise and partnership, the SFAC is instrumental in supporting the Government of Canada's climate goals, including the 2030 enhanced target and the transition to a net-zero emissions economy by 2050.

In March 2023, the SFAC released its Taxonomy Roadmap Report. This provides recommendations for creating a Canadian taxonomy that is incorporated into climate disclosure requirements in Canada. The taxonomy would be used to identify economic activities that can be labeled as “green”, for those that are known to have the least environmental impact, and “transitional”, for those designed to advance the shift to low-carbon energy from fossil fuels. This will provide greater levels of transparency on financial sector investments and how they are supporting the transition to net zero.

The Canadian government, in its 2023 Fall Economic Statement[26], acknowledged the need for mandatory climate disclosure for private companies. It also announced plans to develop the Canadian Taxonomy in line with the 2050 net-zero emissions goal, building on SFAC's Taxonomy Roadmap Report[27]. SFAC's initiatives also align with the work of regulatory bodies like the CSA, and build momentum for sustainable finance and climate risk management in Canada.

Figure 2: Categorization Framework for Determining Whether a Project Is Green- or Transition-Eligible under the Taxonomy



Source: SFAC Taxonomy Roadmap Report – Taxonomy Design[28]

| Canada's Bill S-211 – Modern Slavery Act

A major development in Canadian ESG disclosure is the 2023 passage of Bill S-211, the Fighting Against Forced Labour and Child Labour in Supply Chains Act.[1] The Act came into force on January 1, 2024, and will require eligible Canadian government institutions and businesses to disclose the steps taken during the previous fiscal year to prevent and reduce the risk that forced labour and child labour is being used at any step in their respective supply chains.

The Bill contains two parts: (1) a reporting obligation, and (2) a change to the Customs Tariff. The reporting obligation requires certain entities and government institutions to report on the steps taken to prevent and reduce the risk that forced labour or child labour is used by them or in their supply chains.

The Act applies to Canadian businesses that meet at least two of the following three conditions for at least one of their two most recent fiscal years:

- The entity has at least $20 million in assets;
- The entity has generated at least $40 million in revenue; and/or,
- The entity employs an average of at least 250 employees.

Relevant entities must submit their first reports by May 31st, 2024 and make these publicly available on the company's website. The report should detail the activities carried out in the prior fiscal year by the entity or government institution.

[1] https://www.publicsafety.gc.ca/cnt/cntrng-crm/frcd-lbr-cndn-spply-chns/index-en.aspx

Office of the Superintendent of Financial Institutions (OSFI) Guideline B-15: Final Iteration, More Prescriptive Expectations for the Financial Sector

OSFI has aligned with many financial services regulators worldwide by releasing its B-15 Guideline on climate risk management. The Guideline incorporates a requirement for federally regulated firms to disclose their climate risks in alignment with TCFD requirements. Financial institutions have been given a fair runway before being required to disclose and should focus on building internal capacity in preparation for implementation.

Jurisdiction	Canada
Coverage	Federally regulated financial institutions
Voluntary or Regulatory	Regulatory
Implementation Date	2024 – 2025 financial year end

In March 2023, OSFI published the final iteration of Guideline B-15 – Climate Risk Management[29]. This followed the initial draft released in May 2022, which garnered over 4,300 submissions from a diverse range of stakeholders. These included federally regulated financial institutions (FRFIs) and pension plans, non-regulated entities, other organizations, and individuals.

Guideline B-15 lays out comprehensive expectations for the sound management of climate-related risks for FRFIs. It focuses on key areas such as climate governance and risk management practices (Chapter 1) and climate-related financial disclosures (Chapter 2). It also emphasizes the intersection of transparency, governance, and risk management in addressing climate-related challenges.

The Guideline aligns with the ISSB Standards and is part of OSFI's commitment to the Government of Canada's 2022 Federal Budget pledge, which included (1) consulting FRFIs on climate-disclosure guidelines in 2022, and (2) mandating TCFD-aligned climate disclosures on a phased-in basis from 2024.

Draft Standardized Climate Scenario Exercise (SCSE)

In October 2023, OSFI published a consultation paper introducing a Standardized Climate Scenario Exercise (SCSE), which FRFIs are required to complete in Fall 2024. The goals of the SCSE are to: (1) enhance OSFI's and the financial system's grasp of climate risks, (2) promote the development of the necessary data and analytical capabilities as outlined in Guideline B-15, and (3) enable cross-system comparison of approaches and results.

OSFI views the SCSE as a foundational exercise, emphasizing risk identification and exposure assessment over risk quantification given climate scenario analysis is still in the early stages.

Indicative timelines provided by OSFI for the SCSE are:

- **Fall-Winter 2023**: Finalizing the methodology, data requirements, and sources.
- **Spring 2024**: Provision of an enhanced draft workbook and instructions, along with a second consultation period.
- **Fall 2024**: The SCSE will be launched, and FRFIs will have until 2024 Q3 to complete the exercise and submit results.

In 2025, OSFI will analyze the submissions and publish the outcomes. While OSFI has confirmed there will not be an exercise in 2025, the timeline for future exercises will be determined in forthcoming OSFI B-15 updates. OSFI acknowledges the challenging timelines and has encouraged FRFIs to proactively prepare based on available information.

Notably, Guideline B-15 requires climate disclosures for fiscal year-end 2024 for Domestic Systemically Important Banks and Internationally Active Insurance Groups headquartered in Canada. Other in-scope FRFIs will follow by fiscal year-end 2025. This staged implementation is meant to provide FRFIs with adequate time for self-assessment and compliance preparation.

OSFI intends to continually review and update the Guideline as practices evolve and standards harmonize. This includes refining Chapter 2, which outlines OSFI's expectations for disclosing climate-related risks, after considering IFRS S2 on Climate-related Disclosures.[30]

BC Financial Services Authority (BCFSA) Publishes Discussion Paper on Natural Catastrophes and Climate-related Risks

In 2024 and beyond, we anticipate that several provincial financial regulators in Canada will reflect on the guidelines set by OSFI and determine their own approach to climate risk management and disclosure. British Columbia has led the charge with the release of a consultation paper on natural catastrophes and climate-related risks, recommending (1) firm-level disclosure along TCFD lines, and (2) property-level disclosure for real estate customers. We expect provincial regulations to continue to evolve significantly in 2024 and beyond.

Jurisdiction	Canada, British Columbia
Coverage	Regulated financial services entities in British Columbia
Voluntary or Regulatory	Regulatory
Implementation Date	Currently unknown

In July 2023, the BCFSA published a discussion paper on a comprehensive approach to regulate natural catastrophes and climate-related risks within the financial services sector, including credit unions. The BCFSA invited regulated entities, stakeholders, and members of the public to engage in the consultation process, which concluded in November 2023.

The proposed regulatory approach aligns with OSFI's Guideline B-15 in highlighting the importance of identification, measurement, and management of climate risks. Specific recommendations include strengthening governance and implementing property-specific disclosures for natural catastrophe and climate risks. BCFSA encouraged BC financial services providers to look to Guideline B-15 as it will inform the basis of BCFSA's future regulatory approach. Further updates and refinements are anticipated in 2024.

Partnership for Carbon Accounting Financials (PCAF): Accounting for GHG Emissions in the Financial Sector

Jurisdiction	Global
Covered Entities/Sectors	All global financial institutions; asset-class guidance on an iterative basis
Voluntary or Regulatory	Voluntary
Implementation Date	September 2019 (asset class / sector coverage phased in over time)

In the context of the evolving climate disclosure landscape, PCAF plays a crucial role as the global standard setter for the disclosure of scope 3 financed emissions. The PCAF Global GHG Standard aligns with the GHG Protocol's Scope 3 Category 15 emissions guidance, and supports reporting compliance with frameworks like the TCFD and the CDP31. It provides a comprehensive financed emissions reporting methodology, with detailed methodologies across several asset classes, as well as a robust approach to capturing the quality of the data used in calculations.

Significant progress has been made in recent years to address some gaps in asset class coverage of the PCAF methodologies and enable financial organizations to provide more comprehensive emissions disclosure. Notably, PCAF launched methodologies for capturing emissions from (1) sovereign bonds; (2) facilitated emissions from capital-markets activities and (3) insurance-associated emissions.

A new global Core Team for PCAF was set up in September 2023 to further PCAF's work and ensure it meets growing needs in relation to climate disclosures, climate risk management and net zero emissions journeys. Priority areas identified for development in 2024 include developing methodologies for (1) transition and green finance; (2) additional insurance products and (3) securitized and structured products. PCAF are also looking into how to better account for fluctuations in absolute GHG inventories due to changes in financial attribution metrics over time.32

As mandatory climate reporting becomes increasingly prevalent, the evolving PCAF standards are becoming crucial - especially given the complexities of scope 3 emissions reporting. PCAF is aligned with the ISSB and TCFD standards, and PCAF's approach to data quality is being incorporated into the approaches taken in both IFRS S1 and S2 and CSRD. By adopting the PCAF standards, financial institutions can effectively measure, disclose, and ultimately reduce their climate impact, aligning their operations with the global objective of achieving net-zero emissions.

Mandatory Disclosure Landscape in Other Jurisdictions

United States

The US SEC Proposed Rule: Delayed But Not Forgotten

There has been little movement on the SEC Proposed Rule since 2022, primarily as the result of political pressure and corporate pushback. We anticipate movement on the Rule in April 2024.

Jurisdiction	US
Coverage	Publicly listed companies trading on U.S. exchanges
Voluntary or Regulatory	Regulatory
Implementation Date	Anticipated in 2024

On June 17, 2022, the SEC closed its comment period for their proposed rule. If adopted, the Rule would require any publicly traded companies that are listed on a U.S. exchange to report climate-related information in certain SEC filings. Like the CSA proposed Instrument, the SEC proposed rule is modelled on the TCFD recommendations. However, the SEC's approach is more prescriptive than CSA's proposed Instrument, most notably requiring scenario analysis and scope 3 emissions disclosure when these emissions are material and when companies have set reductions targets for them.

The proposed rule received nearly 16,000 comments, with an overwhelming majority expressing support.[33] Despite this support, several members of Congress opposed the rule, stating they would seek review under the Congressional Review Act. In addition, the composition of the SEC will change ahead of the vote, and incoming commissioners may have different views that could lead to changes to the final rules.

Delays in adoption of the rule have also been driven by companies' concerns about reporting scope 3 emissions, as well as the requirements for data from private companies to facilitate this. The SEC is exploring alternative solutions, such as making reporting these emissions optional.

Pressure is mounting to advance the final rule prior to the US 2024 election, given the impact a change in political party may have on its longevity. As a result, an outcome is expected in April 2024.

California's Climate Disclosure Bills, SB 253 and SB 261: One-Upping SEC?

California's climate-disclosure bills, enacted in 2023, represent a significant tightening of disclosure mandates. They include a broader reach and more stringent requirements, as well as emphasizing the financial implications of climate risks.

Jurisdiction	California
Coverage	Public and private companies SB 253 – Large Companies SB 261 – Companies with >$500 million USD annual revenue
Voluntary or Regulatory	Regulatory
Implementation Date	2026 - 2027

In October 2023, California enacted two significant climate disclosure bills, SB 253[34], and SB 261[35]. SB 253, the Climate Corporate Data Accountability Act, requires large businesses operating in California with an annual revenue exceeding $1 billion USD – regardless of their headquarters' location – to report their GHG emissions. This bill extends beyond the SEC's focus by encompassing both public and private entities. It also mandates the reporting of scope 1, 2, and 3 emissions without considering their materiality.

SB 261, the Greenhouse Gases: Climate-Related Financial Risk Act, focuses on financial-risk disclosure in line with the TCFD's recommendations. It applies to companies doing business in California with over $500 million USD in annual revenue. While the SEC's proposed rules emphasize climate disclosure, they do not delve into financial risks as extensively as SB 261.

Both bills mark significant milestones in corporate climate reporting and accountability. They have garnered support from major corporations such as Patagonia, Microsoft, and Adobe. Companies subject to these bills must adapt to new reporting requirements and potential data-harmonization challenges. Specifically, SB 253 mandates companies to report their scope 1 and 2 emissions by 2026, and their scope 3 emissions by 2027. Meanwhile, companies that have not yet implemented TCFD guidelines will need to take immediate action to meet the 2026 disclosure deadline set by SB 261.

Enter the EU Corporate Sustainability Reporting Directive (CSRD)

The EU's CSRD, effective from January 2023, requires all large EU companies – and publicly listed small and medium sized enterprises (SMEs) – to disclose detailed environmental and social risks and impacts. This extends the scope of the previous Non-Financial Reporting Directive (NFRD). The CSRD enables stakeholders to evaluate companies' sustainability performance.

Jurisdiction	EU
Coverage	All large companies and all listed companies operating in EU (except listed micro-enterprises)
Voluntary or Regulatory	Regulatory
Implementation Date	Phased in from 2024 to 2029

The EU has taken a significant step in enhancing climate and sustainability reporting with the implementation of the CSRD.[36] As part of the European Green Deal[37], EU law now requires large companies and publicly listed companies (except micro-enterprises) to disclose detailed information on environmental and social risks and impacts.[38] This directive is instrumental in enabling investors, civil society, consumers, and other stakeholders to effectively evaluate the sustainability performance of companies.

The CSRD, which came into effect in January 2023, modernizes and expands the scope of prior reporting requirements. It builds upon the foundations laid by the Non-Financial Reporting Directive (NFRD)[39], which was criticized because of the insufficient information reported by companies. The CSRD extends its reach to a broader set of large companies, considered 'public interest' entities. This includes large EU-based companies and non-EU companies with significant business activities within the EU. Listed SMEs are also subject to the CSRD, but with simplified reporting standards, while non-listed SMEs have proposed voluntary standards designed to support their role in the sustainable economic transition.

Companies subject to the CSRD will have to report according to the European Sustainability Reporting Standards (ESRS), developed by the European Financial Reporting Advisory Group (EFRAG)[40]. Following a public-feedback period, the ESRS were adopted as a delegated regulation by the European Commission in July 2023. These mandatory standards will be applied starting in the 2024 financial year, with reports due in 2025.[41]

The ESRS take on a double materiality perspective by encompassing a full spectrum of ESG issues, including climate change, biodiversity, and human rights. They were designed to align with the ISSB and the GRI to ensure high interoperability between EU and global standards and minimize duplicative reporting.[42] IOSCO expressed its support for the adoption of the ESRS, emphasizing it is a significant step towards global harmonization in sustainability reporting.

Unlike the CSA Proposed Instrument and SEC Proposed Rule, the ESRS capture a range of sustainability considerations, rather than focusing solely on climate-related impacts. They aim to enable investors to gauge the sustainability impact of their investments.

The phased implementation of the CSRD rules will commence from 2024 and continue until 2028. It begins with large 'public interest' companies already subject to the NFRD, followed by other large companies, listed SMEs, and various undertakings in the subsequent years. Given the approaching implementation dates and the extensive nature of the reporting requirements, companies are advised to start preparing for CSRD compliance as soon as possible. This early preparation will be crucial for companies to stay ahead of the curve as new regulations are put in place, not just within the EU but also in the global landscape of mandatory sustainability reporting.

Connecting the Disclosure Dots

The landscape of ESG and climate reporting is continually evolving and maturing. Given the urgency of the climate crisis and the necessity of getting to net zero – and the calls from investors for more detailed and quality information on climate and ESG risks and opportunities – we expect that more sustainability and climate information will be reported worldwide, and that this will be in response to both voluntary efforts and mandatory requirements.

Where to from here

The answer to this question depends on your business, industry, and where you are on your ESG journey. For companies that have been actively advancing their climate and ESG actions, the concept of ESG disclosure is nothing new. However, new regulatory mandates will bring a higher level of scrutiny that could require companies to develop more comprehensive internal processes and controls with more oversight from finance and risk departments.

For companies that are in an earlier stage of their ESG and climate journey (often mid-market organizations that aren't large publicly traded entities or big banks), these mandates may usher in an entirely new way of thinking and operating. You may want to consider building executive capacity, engaging with stakeholders, quantifying your GHGs, and assessing your climate risks and opportunities.

Even if your organization isn't regulated by the likes of the CSA, SEC or OSFI, there will be downstream impacts that will affect your business. These could include how a bank assesses you as part of a loan application, or receiving requests from vendor and customer because they are required to disclose their supply chain emissions to their governing bodies.

Whether your organization is considering ESG and climate disclosure to identify risks and opportunities, showcase your leadership, or because it's required by your regulator, it's important to understand that this is not a sprint but a marathon. We can help you every step of the way.

Glossary

BCFSA – BC Financial Services Agency

BCFSA is a British Columbian provincial regulatory body overseeing the financial services sector. It operates and intervenes among insurance corporations, credit unions, trust companies, real estate development, mortgage brokers, and pension plans (https://www.bcfsa.ca/about-us).

Climate-related Risks

Climate-related risks are divided into two categories: physical risks and transition risks. First, physical risks are the risks that result from the increased frequency of adverse weather events, the indirect effects on ecosystems from these climatic events, and the longer-term consequences on ecosystems. Second, transition risks the policy, legal, technological, and market impacts on existing assets or operations that come with attempts to transition into a lower-carbon economy. (https://www.bcfsa.ca/media/3400/download and https://delphi.ca/wp-content/uploads/2022/09/ABCs-of-ESG-Brief-September-2022.pdf)

COP – Conference of the Parties

The COP is an international meeting of governments to discuss and navigate the progress made in addressing climate change globally. Beginning in 1995, the most recent COP meeting was COP 28, from November to December 2023. (https://unfccc.int/process-and-meetings/conferences/the-big-picture/what-are-united-nations-climate-change-conferences/how-cops-are-organized-questions-and-answers)

CSA – Canadian Securities Administrators

The CSA is a collaborative initiative between ten provinces and three territories within Canada. The CSA helps to regulate and coordinate policy decisions within the Canadian securities industry and capital markets. (https://www.securities-administrators.ca/about/)

CSSB – Canadian Sustainability Standards Board

The CSSB was established in 2023 to help support the adoption of the ISSB standards into the Canadian market.

ESG – Environmental, Social, and Governance

ESG stands for environmental, social, and governance issues. The term 'ESG' is often used when a firm or entity discloses the climate-related impacts of their activities and their exposure to climate risks as these relate to the three domains.

ESRS – European Sustainability Reporting Standards

The ESRS are mandatory climate-related reporting standards for the EU and are closely related to the EU's CSRD program. The ESRS provides the methodology and standards necessary for reporting, while the CSRD is the legal structure and regulatory framework for reporting. The ESRS was developed by the European Financial Reporting Advisory Group (EFRAG).

FRFI – Federally Regulated Financial Institutions

In Canada, FRFIs consist of banks, trust companies, loan companies, insurance companies, and fraternal benefit societies. (https://www.osfi-bsif.gc.ca/Eng/wt-ow/Pages/wwr-er.aspx)

FSB – Financial Stability Board

The FSB is a global financial monitoring body working to establish stable international financial markets by coordinating various financial authorities and developing regulatory policies. (https://www.fsb.org/about/)

G20

The G20 is an international economic forum representing the governmental bodies of 19 countries – such as Canada – and the European Union. (https://www.international.gc.ca/world-monde/international_relations-relations_internationales/g20/index.aspx?lang=eng)

GHG – Green House Gas

Greenhouse gas (GHG) emissions are a primary contributor to anthropogenic climate change and are associated with feedback loops that further impact the Earth's climate. Prominent GHGs affecting the climate are carbon dioxide, methane, and nitrous oxide. GHG emissions are one component associated with adverse effects on the Earth. (https://www.epa.gov/climatechange-science/causes-climate-change)

IFRS – International Financial Reporting Standards (Foundation)

The IFRS is a foundation established to build operating and accounting standards for the global financial market. In 2021, the IFRS assembled the ISSB, which has created a set of global sustainability disclosure standards (IFRS S1 and S2). (https://www.ifrs.org/groups/international-sustainability-standards-board/)

Interoperability

In the context of ESG reporting, interoperability refers to the compatibility of different reporting frameworks to harmonize and work together. Interoperability means there are common links between the various frameworks and standards to enable entities to easily include and move between the standards based on their jurisdictions and requirements.

IOSCO – International Organization of Securities Commissions

The IOSCO is the primary international body for the world's securities regulators and works closely with the G20, the FSB, and other global entities.

ISSB – International Sustainability Standards Board

The ISSB is a group created by the IFRS that works to create a global standard for sustainability and climate disclosures. The board is attempting to create a baseline standard for investors and enable interoperability between different jurisdictions and stakeholders. In June 2023, the ISSB published its first set of standards, which fully incorporated the standards/recommendations of the TCFD (https://www.ifrs.org/groups/international-sustainability-standards-board/)

NCCR – Natural Catastrophes and Climate-Related Risks

Within the framework of BCFSA's *Discussion Paper*, natural catastrophes refer to extreme weather or climactic natural events which pass the threshold of 'hazard,' such as wildfires and earthquakes. Climate-related risks refer to climatic-based components and are divided into two categories: physical risks and transition risks (see Climate-related Risks). (https://www.bcfsa.ca/media/3400/download and https://delphi.ca/wp-content/uploads/2022/09/ABCs-of-ESG-Brief-September-2022.pdf)

Net-zero

The term net-zero refers to efforts to reduce anthropogenic GHG emissions to zero in an attempt to limit global temperature rise below 1.5˚C. This is achieved by engaging in efforts to reduce GHG emissions, with the residual emissions being removed from the atmosphere via carbon removals. (https://www.un.org/en/climatechange/net-zero-coalition)

OSFI – Office of the Superintendent of Financial Institutions

OSFI is an independent federal regulating body in Canada. OSFI supervises federally regulated financial institutions and pension plans, and through various regulatory mechanisms, aims to maintain the effective functioning of the Canadian financial system (https://www.osfi-bsif.gc.ca/Eng/osfi-bsif/Pages/default.aspx).

PCAF – Partnership for Carbon Accounting Financials

PCAF is a collective of global financial institutions attempting to encourage more transparency in measuring and disclosing climate impacts within the financial sector. PCAF was founded in 2015 following the Paris Agreement as a bridge and tool for the financial industry to work collectively and facilitate the decarbonization of their emissions. In September 2019, PCAF released the first implementation of their Global GHG Accounting and Reporting Standard, with significant updates since the intervening years, and it provides an instrument for financial institutions to assess and report their indirect emissions. (https://carbonaccountingfinancials.com/about)

Scenario Analysis

Scenario analysis is a predictive tool for estimating the potential outcomes of different future pathways. According to the TCFD, scenario analysis refers to process of evaluating different climate-related risks and opportunities faced by the organization over different future pathways for climate change and policy action, over extended time horizons. The use of detailed scenario analysis – thinking through the potential outcomes of different events – is acknowledged as a crucial component in evaluating climate-related risks. (https://www.tcfdhub.org/scenario-analysis/)

Scope 1, 2, and 3 Emissions

A company's GHG emissions are classified into three 'scopes' based on the GHG Protocol Corporate Standard. Scope 1 emissions are 'direct' emissions – those which occur at a firm level, either company-owned or controlled. Scope 2 emissions are 'indirect' and 'upstream' emissions from a firm's purchase and use of electricity and energy. Finally, Scope 3 emissions are all the 'indirect' emissions not otherwise classified within Scope 2. These Scope 3 emissions can be both 'upstream' emissions – in the case of transportation and distribution of the product or good, and employee commuting – and 'downstream' emissions – such as the impacts associated with consumer use of the product or good, leased assets, lending and investing activities, and any end-of-life treatment. (https://www.epa.gov/climateleadership/scope-1-and-scope-2-inventory-guidance)

SEC – (US) Securities and Exchange Commission

The SEC is the federal overseer of the United States' (US) securities industry, and the commission behind the new proposed rule that is expected to be implemented in 2024.

SFAC – Sustainable Finance Action Council

The Canadian government established the SFAC in May 2021 with the goal of integrating finance practices, disclosures, and reporting into Canada's private and public financial sectors. The SFAC works closely with the Canadian government to support transitions to a net-zero emissions economy by 2050. In March 2023, the SFAC released its *Taxonomy Roadmap Report*, providing key recommendations on the climate-related activities and disclosure pathways helpful to the financial sector for achieving its net-zero goals (https://www.canada.ca/en/department-finance/programs/financial-sector-policy/sustainable-finance/sustainable-finance-action-council.html).

SMEs – Small and Medium-sized Enterprises

In the EU context, SMEs are enterprises with less than 250 employees, an annual turnover of less than EUR 50 million, and/or less than EUR 43 million in their annual balance sheet. (http://eur-lex.europa.eu/legal-content/EN/TXT/?uri=CELEX:32003H0361&locale=en)

Sustainability- vs Climate-related risks and opportunities.

These two terms refer to similar yet distinct concepts. Sustainability-related risks and opportunities are a broader, overarching category for entities to consider and refer to diverse topics such as biodiversity issues, land change, or water pollution. Climate-related risks and opportunities are a subset of these sustainability topics, specifically for climatic variables, distinguished by physical and transition risks (see Climate-related risks).

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