January 2025

EARLY IMPRESSIONS

Canadian Sustainability Disclosure Standards

FOREWORD

As sustainability increasingly gains traction in the global business landscape, Canada continues to drive progress in shaping robust sustainability reporting frameworks. The Canadian Sustainability Disclosure Standards (CSDS), released on 18 December 2024, mark a significant milestone in this journey. These standards are grounded in the global IFRS S1 and S2, leveraging a "building block approach" to ensure interoperability while incorporating targeted modifications to address Canadian public interests and market-specific needs.

These voluntary disclosure standards provide Canadian entities with a valuable framework to help build capacity toward eventual mandatory compliance. By aligning with the CSDS, Canadian organizations can enhance their transparency and accountability while helping to position Canada as a key contributor to the global harmonization of sustainability reporting. In doing so, Canada can strengthen its role in driving meaningful progress toward sustainable business practices.

We welcome opportunities to discuss the information contained within this publication.

Thank you.

For Uniqus Consultech

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BACKGROUND OF THE CSDS

The development of the CSDS comes in response to rising demands from various stakeholders for transparency and comparability in sustainability reporting. Key stakeholders involved in developing and implementing the CSDS include policy makers and government agencies, corporations, investors, NGOs, civil society representatives, and indigenous groups. In developing the CSDS, the Canadian Sustainability Standards Board (CSSB) endeavored to enhance the quality and comparability of sustainability-related disclosures among Canadian organizations. The CSDS is based on the ISSB's IFRS Sustainability Disclosure Standards (i.e., IFRS S1 and S2), which set a global baseline for sustainability reporting. The CSDS was designed to facilitate the integration of other frameworks, such as the Sustainability Accounting Standards Board (SASB), and interoperability with others, such as the Global Reporting Initiative (GRI), ensuring that Canadian disclosures are compatible with international standards.

By integrating with its universal counterpart – ISSB and other globally recognized standards, the CSDS ensures that Canadian disclosures align with international best practices, establishing a global baseline for comparability. The standards also incorporate Canadian-specific contexts, addressing national priorities while championing enhanced corporate responsibility and sustainability among the 1,200 publicly listed companies (and potentially the suppliers to these entities) under its purview.

WHAT IS THE SCOPE AND COVERAGE OF THE CSDS?

The CSDS S1 and S2 are currently voluntary disclosure standards for Canadian companies. While voluntary, they are setting up a foundation for any forthcoming mandatory disclosure regimes in Canada. Regulatory and legislative bodies, such as the Canadian Securities Administrators (CSA), will determine whether the CSDS will be mandated in the future, to whom the mandated disclosures will apply, and over what timeframe. Now that consultations on the CSDS are completed, the CSA has indicated that it will seek feedback on its own revised mandatory disclosure rule, potentially integrating the CSDS into Canadian securities legislation.

CSDS 1 aligns with IFRS S1 and covers general sustainability-related risks and opportunities. It requires Canadian companies to disclose all material sustainability-related risks and opportunities, which may relate to dependencies on natural resources or impacts on people, and think about how these could affect the company's performance and prospects. In this way, CSDS 1 sets out the core content for a complete set of sustainability-related financial disclosures to meet users' needs of general-purpose financial reports issued by Canadian companies.

Risks & Opportunities

To require an entity to disclose information about its sustainability-related risks and opportunities that is useful to primary users of general-purpose financial reports in making decisions relating to providing resources to the entity.

Value Chain Dependency

The entity and the resources and relationships throughout its value chain form an interdependent system in which the entity operates. The entity's dependencies on those resources and relationships and its impacts on those resources and relationships give rise to sustainability-related risks and opportunities for the entity.

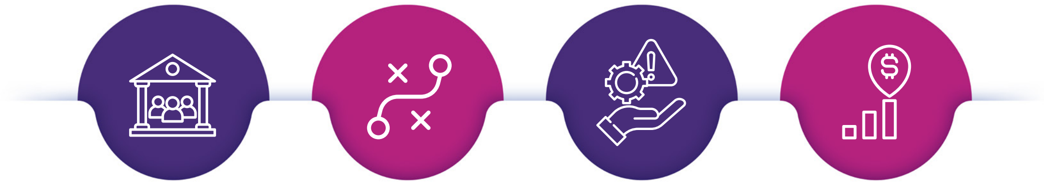
Entity's Prospect

To require an entity to disclose information about all sustainability-related risks and opportunities that could reasonably be expected to affect the entity's cash flows, its access to finance or cost of capital over the short, medium or long term.

Reporting Process

It sets out general requirements for the content and presentation of those disclosures so that the information disclosed is useful to primary users in making decisions relating to providing resources to the entity.

The Task Force on Climate-Related Financial Disclosures (TCFD) provides a framework for companies and other entities to disclose investor-grade information about climate-related risks and opportunities. The TCFD framework has been voluntarily adopted across industries, and it also serves as the basis for CSDS 1 and 2. The framework also underpins other regulatory frameworks across jurisdictions around climate-related disclosures, and has four main pillars:



Governance

Companies' board and executive governance of material sustainability-related risks.

Strategy

Companies' material sustainability-related risks and their actual or likely material impacts in the short term (next 12 months) and long term (more than 12 months) on their strategy, business model, financial conditions, and outlook, alongside material expenditure associated with sustainability-related risks.

Risk Management

Relevant processes used to identify, assess, and manage sustainability-related risks, alongside any activities undertaken to mitigate or adapt to them.

Metrics and Targets

Larger companies' direct sustainability-related KPIs, which would be subject to proportionate independent assurance requirements, as well as any targets or goals which likely or inactuality materiality affect those companies' strategy, business model, financial condition, and outlook.

CSDS 2 aligns with the IFRS S2 and is, therefore, also built upon the TCFD framework. It requires a Canadian entity to disclose information about its climate-related risks and opportunities that is decision-useful to primary users of general-purpose financial reports. That is, while CSDS 1 sets out overarching requirements around sustainability-related disclosures for Canadian companies, CSDS 2 sets out supplementary disclosure requirements specifically related to climate-related information.

A Canadian entity is required to apply CSDS 2 in accordance with the conceptual foundations, general requirements, and the requirements related to judgments, uncertainties, and errors in CSDS 1. CSDS 2 requires disclosure of information about climate-related risks and opportunities that could reasonably be expected to affect the entity's cash flows, its access to finance or cost of capital over the short, medium or long term. CSDS 2 also requires disclosing climate-related strategy, business model, climate resilience, and risk management. In terms of metrics and targets, entities should disclose absolute gross greenhouse gas (GHG) emissions generated during the reporting period in accordance with the Greenhouse Gas Protocol, including Scope 1, 2, and 3 emissions, the approach used to measure emissions, and any quantitative and qualitative climate-related targets set to monitor progress.

Materiality: Under CSDS 1, a Canadian entity should disclose material information regarding sustainability risks and opportunities expected to affect the company. Information is deemed as material if:

"...omitting, misstating or obscuring that information could reasonably be expected to influence decisions of primary users of general-purpose financial reports, ... which provide information about a specific reporting entity."

The CSDS does not determine materiality thresholds; instead, the determination is defined by the entity. When identifying material information about a sustainability-related risk or opportunity, an entity should first identify the applicable CSDS requirements applied to the associated sustainability-related risk or opportunity. If there is no association, the entity can make this judgement on its own.

HOW WILL THE CSDS IMPACT VARIOUS STAKEHOLDERS?

The CSDS is poised to significantly influence various stakeholders by streamlining reporting processes and enhancing transparency. By aligning with global standards set by the International Sustainability Standards Board (ISSB), the CSDS facilitates interoperability, enabling investors to assess Canadian companies on par with international counterparts, potentially improving access to capital. Beyond operational efficiencies, the CSDS is pivotal in advancing decarbonization efforts. By mandating comprehensive disclosures of greenhouse gas (GHG) emissions, including Scope 1, 2, and 3 emissions, companies are encouraged to scrutinize and reduce their carbon footprints. This comprehensive reporting framework aids in identifying emission sources across entire value chains, promoting targeted reduction strategies.

Moreover, the CSDS assists companies in navigating the complex landscape of emerging and existing regulations. With the global shift towards stringent environmental policies, standardized sustainability reporting ensures compliance with national and international requirements, mitigating legal risks and enhancing corporate reputation. For instance, the European Union's Corporate Sustainability Reporting Directive (CSRD) and Canada's forthcoming regulations necessitate detailed sustainability disclosures, making adherence to CSDS advantageous. For policymakers, the standardized data CSDS provides is invaluable in tracking national progress toward climate commitments. It enables effective monitoring of GHG emissions and other environmental impacts, informing policy adjustments and developing initiatives to achieve net-zero emissions by 2050.

Hence the CSDS will foster a standardized approach to sustainability disclosures, facilitate investment, and aids in the global shift towards regenerative practices.

IMPLEMENTATION TIMELINES

Now that the CSDS standards have been finalized, they will apply to annual reporting periods starting on or after **1 January 2025,** on a voluntary basis. Canadian companies are not mandated to apply the standards at present. Still, the CSA has indicated that they will evaluate the CSDS when developing a mandatory Canadian market reporting regime in the future. Companies can prepare for future compliance by evaluating the CSDS and adopting the standard before it becomes a mandatory exercise.

Companies adopting CSDS 2 will have **three years of transition relief,** during which they are not required to disclose Scope 3 greenhouse gas (GHG) emissions but can nevertheless state claim full alignment with the CSDS. This is an extension compared to the ISSB Standards, under which a one-year transition relief period is provided. Disclosures beyond climate-related risks (e.g., other sustainability risks) and the requirement to provide comparative information have also been given additional up to two and three-year transition periods, which have been summarized in the following table. Entities employing these transition reliefs must disclose their use.

Standard	Aspect and Section	Transition Relief and Effective Date
CSDS 1	Reporting timelines (E4)	An entity can issue sustainability-related disclosures after financial statements for up to the first three annual reporting periods it applies CSDS 1, subject to the following transition relief timelines. • Year 1: Within 9 months of issuing financial disclosures • Year 2: Within 6 months of issuing financial disclosures • Year 3: Within 6 months of issuing financial disclosures **(3 years; January 1, 2028)**
CSDS 1	Reporting timelines (E5)	An entity can issue climate-related disclosures in accordance with CSDS 2 for up to the first two annual reporting periods in it applies CSDS 1. **(2 years; January 1, 2027)**
CSDS 2	Scope 3 GHG emissions (C4)(b)	An entity is not required to disclose Scope 3 GHG emissions for up to three annual reporting periods for which it applies CSDS 2. This information can be presented as comparative information in subsequent reporting periods. **(3 years; January 1, 2028)**
CSDS 2	Climate resilience (C4)(c)	An entity is not required to use quantitative climate-related scenario analysis to assess its climate resilience in the first three annual reporting periods in which it applies CSDS 2. An entity also not required report quantitative information (e.g., climate-related financial impacts) if such information would only be available through quantitative scenario analysis. This information can be presented as comparative information in subsequent reporting periods. **(3 years; January 1, 2028)**

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CSDS: Differences with ISSB Standards

The CSDS is a Canadian adaptation of the IFRS S1 and S2, designed to address specific priorities and challenges within the Canadian market while ensuring alignment with the international community. The CSDS is governed by the Canadian Sustainability Standards Board (CSSB), which operates within Canada's regulatory and legal framework to promote alignment with domestic policies. Keeping this in mind, the CSSB engaged extensively with Canadian stakeholders during the public comment period – including businesses, investors, policymakers, and indigenous groups – to ensure that the final standards reflected the interests of Canadian stakeholders. This will allow Canadian companies to remain competitive globally while addressing Canada's specific sustainability-related concerns domestically. Aside from the aforementioned transition relief differences, the CSDS were developed emphasizing industries critical to the Canadian economy, including oil and gas, mining, and forestry, offering more tailored guidance. Meanwhile, IFRS S1 and S2 provide broader applicability. Canada-specific examples and guidance were also provided to help companies interpret and implement the standards, and the CSDS also emphasizes issues such as Indigenous rights, land use, and biodiversity issues – considerations that are particularly relevant to Canada.

The CSDS was also developed to ensure consistency with Canadian securities laws and frameworks, which would allow the standards to be more applicable to listed Canadian companies – this is crucial should the CSA mandate the CSDS in the future. While the IFRS encourages the ISSB Standards to be adopted by various market jurisdictions on a mandatory basis depending on individual national regulatory decisions, the CSRS currently offers voluntary adoption but may align with future mandatory disclosure requirements under Canadian regulations such as those proposed by the CSA.

Assurance Readiness and Reporting Rigor: The Uniqus Way

The CSDS reflects a global shift as voluntary reporting accelerates toward regulation. Many major jurisdictions, such as the EU and the State of California, are introducing regulations requiring oversight of non-financial and sustainability-related information, often aligning with frameworks like the ISSB Standards and the recommendations of the TCFD. This trend mandates greater oversight from the boards and management of companies as sustainability reporting becomes an essential and mandatory part of doing business worldwide.

Non-financial data requirements are novel and distinct from financial reporting, yet still require the same level of rigor, as various stakeholders demand transparency and accuracy in disclosures. Unlike financial data, however, sustainability metrics are varied, ranging from quantitative indicators like GHG emissions to qualitative factors such as discussion around incidents of discrimination. Additionally, sustainability metrics can be expressed in different units, such as carbon dioxide equivalents or relative to business activity, like revenue. The data also comes from various sources, including employees, suppliers, clients, and operational assets.

Sustainability disclosures may also extend beyond an organization to include its entire value chain, raising concerns about the accuracy and reliability of data from such partners, particularly small and medium-sized enterprises that may lack a commensurate understanding of such disclosure requirements. Stakeholders now more than ever may expect third-party independent assurance for sustainability-related data, like what is expected for financial reporting. Given the evolving nature of non-financial reporting, companies may lack the resources or infrastructure to collect and internally verify this data effectively. Historically, data collection and controllership have been fragmented, with companies relying on basic methods like spreadsheets and emails, which can be inefficient and prone to oversight lapses. Several businesses may need third-party support to streamline data collection and reporting.

Establishing strong internal control systems is essential for accurate and effective reporting for companies embedding sustainability into their business strategies. A robust internal control framework enables organizations to monitor progress, enhance resilience, and realize long-term value from their sustainability initiatives. In an era of increasing regulatory scrutiny and stakeholder expectations, the urgency for comprehensive internal controls over sustainability data has reached a critical level, impacting organizations globally.

Guidance such as COSO's Internal Control over Sustainability Reporting (ICSR) provides a structured approach to ensuring the reliability and integrity of sustainability data. However, successful implementation requires more than a framework; it demands the active engagement of boards, senior management, and cross-functional teams to align efforts and achieve strategic goals. A strong internal control framework also paves the way for third-party assurance, building stakeholder trust by demonstrating the accuracy and credibility of sustainability disclosures.

Establishing internal controls for sustainability reporting is a nuanced process requiring specialized expertise and a deep understanding of evolving frameworks. Many organizations benefit from partnering with experienced third parties to build the necessary capacity and apply the proper knowledge for seamless implementation.

Uniqus Consultech is well-equipped to guide your organization in developing and implementing a tailored internal control framework to meet all relevant sustainability reporting requirements. As a fully integrated, technology-enabled provider of accounting, reporting, ESG, and technology consulting services, we simplify data collection, analysis, and reporting for our clients. With a proven track record of supporting hundreds of global organizations across industries, we bring the discipline and precision of financial reporting to the ESG domain. Our approach is designed to transform consulting into a forward-thinking, solution-oriented partnership. Read more about our ESG assurance readiness recommendations in our **thought leadership** piece and contact us today to learn more about our solutions.

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