Canadian Sustainability Standards Board proposes sustainability and climate-related disclosure standards

April 17, 2024

What you need to know

On March 13, 2024, the Canadian Sustainability Standards Board (the **CSSB**) released comprehensive drafts of its sustainability related disclosure standard (*CSDS 1, General Requirements for Disclosure of Sustainability-related Financial Information* (**CSDS 1**)) and climate change disclosure standard (*CSDS 2, Climate-related Disclosure*) (**CSDS 2**, together, the **CSSB Standards**). The CSSB Standards mark a new era of sustainability reporting and are modeled substantively on the sustainability standards published by the International Sustainability Standards Board (the **ISSB**) under the IFRS Foundation.

The principal objective of the CSSB Standards is to improve transparency for investors in a manner that enables comparative analysis, thereby aiding investment decisions and driving efficiencies in the market. Regarding public markets, the Canadian Securities Administrator (**CSA**) has signaled its support for the CSSB Standards and is in the process of revising its proposed National Instrument on climate-related disclosures for issuers. As such, aspects of the CSSB Standards are expected to become a legal requirement in Canadian public markets soon. One can speculate that private markets will not be far behind.

The comment period for the draft CSSB Standards closes on June 10, 2024. The CSSB welcomes submissions on all aspects of the standards and is seeking comments on the following four areas in particular: (i) the scope of the CSDS 1, (ii) the timing of reporting as it pertains to financial reporting periods, (iii) the use of climate-related scenario analysis, and (iv) reporting on Scope 3 emissions. Interested parties can participate by taking an online survey or submitting a response letter to Financial Reporting & Assurance Standards (Canada) (**FRAS**).

Canadian Sustainability Standards Board

The recently inaugurated CSSB was established in 2022 by FRAS to advance the adoption of sustainability standards in Canada. In particular, “the CSSB develops

Canadian sustainability disclosure standards that align with the global baseline standards developed by the International Sustainability Standards Board – but with modifications to serve the Canadian public interest."

On March 13, 2024, the CSSB released its exposure drafts, CSDS 1 and CSDS 2. Accountants (or lawyers for that matter) will never be accused of being overly creative and, true to the almost identical titles, the CSSB Standards adopt the ISSB Standards with only minor modifications made in the 'Canadian public interest'. Lawyer jokes aside, using the ISSB Standards as the baseline is done intentionally to ensure that reporting is consistent, enabling comparative analysis in the global marketplace.

The baseline – the ISSB Standards

The ISSB was established by the International Financial Reporting Standards (**IFRS**) Foundation with the objective of providing a baseline for sustainability-related disclosure for global capital markets. The IFRS Foundation publishes the global accounting standard for the preparation of financial statements adopted by more than 140 jurisdictions across the globe, with the one notable exception being the United States of America. Although not accounting standards per se, the ISSB Standards were drafted to work in conjunction with the IFRS accounting standards. The ISSB Standards can be used with any accounting requirements, including US GAAP.

The ISSB Standards are comprised of two disclosure standards:

> *IFRS S1 – General Requirements for Disclosure of Sustainability-related Financial Information* which requires disclosure about sustainability-related risks and opportunities that could reasonably be expected to affect an issuer's cash flows, access to finance or cost of capital over the short, medium, or long term; and
>
> *IFRS S2 – Climate-related Disclosures* which fully incorporates the TCFD Recommendations and requires disclosure of material information about an issuer's climate-related risks and opportunities that could reasonably be expected to affect and issuer's cash flows, access to finance or cost of capital over the short, medium or long term. IFRS S2 is used in conjunction with IFRS S1.

Under both standards, an issuer will be required to disclose its:

- Governance processes, controls and procedures;
- Strategy for managing sustainability or climate-related risks and opportunities;
- Processes used to identify, assess, prioritize and monitor sustainability or climate-related risks and opportunities; and
- Performance in relation to such risks and opportunities, including progress towards any set targets.

The Canadian modifications

The CSSB provides a helpful synopsis of the four modifications it made to the ISSB Standards, which are reproduced below with permission: The modifications can be grouped broadly into two categories: (i) effective dates, and (ii) transition relief. High level, the effective dates of the CSSB Standards are pushed out by a year, for both the

effective date upon which the CSSB Standards become voluntarily effective, and for disclosures beyond climate. Transition relief includes extending the date that Scope 3 GHG emissions will need to be reported.

Amendment[1]	Illustration
Effective date (paragraph E1 of CSDS 1 & paragraph C1 of CSDS 2)	
The proposed effective dates for CSDS 1 and CSDS 2 have been extended by one year.	The proposed standards would become voluntarily effective for annual reporting periods beginning on or after January 1, 2025.
Disclosures beyond climate (paragraph E5 of CSDS 1)	
The proposed transition relied for disclosure beyond climate-related risks and opportunities has been extended from one year granted by the ISSB to two years.	Assuming a calendar year end, if an entity applies the proposed standard for the first time in the reporting period beginning on January 1, 2025, it will be required to disclose information on all sustainability-related risks and opportunities from the reporting period beginning on January 1, 2027.
Comparative information (paragraph E6 of CSDS 1)	
The proposed requirements to disclose comparative information have been changed to align with the modification made to paragraph E5.	Assuming a calendar year end, if an entity applies the proposed standard for the first time in the reporting period beginning on January 1, 2025, and applies the relief in paragraph E5, to delay reporting about its sustainability-related risks and opportunities (other than disclosure of information on only climate-related risks and opportunities), an entity will be required to disclose comparative information on all sustainability-related risks and opportunities from the reporting period beginning on January 1, 2028.
Scope 3 GHG emissions (paragraph C4 of CSDS 2)	
The proposed transition relied for disclosure of Scope 3 GHG emissions has been extended from one year granted by the ISSB to two years.	Assuming a calendar year end, if an entity applies the proposed standard for the first time in the reporting period beginning on January 1, 2025, it will be required to disclose its Scope 3 GHG emissions from the reporting period beginning on January 1, 2027.

What's next

As discussed in our previous client bulletin, the CSA released their draft *National Instrument 51-107 –Climate-related Disclosure Requirements* (the **Proposed Instrument**) in 2021. The Proposed Instrument was put on hold pending developments in the US with the SEC's draft rule and the publishing internationally of the ISSB Standards, both of which were more comprehensive than the Proposed Instrument.

The CSA issued a press release on the day that the CSSB Standards were published for comment. The CSA appears supportive of the CSSB Standards and acknowledged that it may "help inform revisions to our proposed climate-related disclosure rule". The CSA further noted that the CSSB Standards would only become mandatory under Canadian securities legislation if they are incorporated into a CSA Rule. The CSA also clarified next steps:

> "Once the CSSB consultation is complete and its standards are finalized, the CSA anticipates seeking comment on a revised rule setting out climate-related disclosure requirements. The CSA proposal will consider the final CSSB standards and may include modifications appropriate for the Canadian capital markets. The CSA anticipates adopting only those provisions of the sustainability standards that are necessary to support climate-related disclosures."

Of note is the last sentence, which confirms that the CSA does not intend at this time, to put forward a general sustainability standard accompanying a climate change related standard. Given that CSDS 2 is to be applied in conjunction with CSDS 1, it will be interesting to see how the CSA navigates the implementation of CSDS 2 via the Proposed Instrument or otherwise.

Beyond capital markets – what the CSSB Standards mean for Canadian private companies and funds

The IFRS accounting standards are voluntary – until they're not. That is, the IFRS Foundation publishes the accounting standards, including the ISSB Standards, without any jurisdiction to enforce them. The same goes for the CSSB Standards. As noted above, it is up to regulators such as the CSA to exercise their jurisdiction and require reporting in alignment with such standards. The CSA did just that in 2010 when it imposed the transition of most publicly accountable enterprises to IFRS for financial years beginning on or after January 1, 2011.

While the focus of standards created under the IFRS Foundation is on global capital markets and listed issuers, the application of these global baselines extends beyond such markets. The principal objective of reporting standards is to provide more uniform and comparable disclosures for investors and other users that rely on a company's reports to make investment decisions. As such, IFRS and other standards are often used by private companies voluntarily or as required by their investors.

From a transactional perspective, the CSSB Standards could become a requirement in purchase and sale, amalgamations, financing and other transactions related to privately-held companies. Transaction documents in a private M&A deal often contain

multiple references to the IFRS accounting standards, including in the ever-critical representations and warranties sections of the purchase agreement.

The impact of CSSB Standards will filter its way into private equity as well. PE firms can have a material impact on their portfolio companies and their respective efforts to de-carbonize or meet other ESG goals. If done correctly, PE firms can create value in the process. In some cases, portfolio companies may be in a jurisdiction (i.e. California, Europe) that requires them to report on sustainability or climate-specific metrics. Finally, funds that sell to investors on the basis of sustainability will be hard pressed to back up their claims with what may soon be globally accepted disclosure standards.

[1] In Brief – A Plain and Simple Overview of the Recently Issued Exposure Drafts, 'Canadian Sustainability Disclosure Standard (CSDS) 1, General Requirements for Disclosure of Sustainability-related Financial Information' and 'CSDS 2, Climate-related Disclosures'," Financial Reporting & Assurance Standards Canada, Financial Reporting & Assurance Standards Canada, March 13, 2024

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