IFRS joins the fight to protect investors from climate risk

February 04, 2022

By Armand Capisciolto, FCPA, FCA, BDO Canada and Kristyn Annis, Counsel, BLG.

What you need to know

On November 3, 2021, the IFRS Foundation Trustees made three important announcements relating to sustainability, and specifically, climate change:

1. The formation of a new International Sustainability Standards Board (ISSB) to develop a comprehensive global baseline of high-quality sustainability disclosure standards to meet investors' information needs;
2. The consolidation of the Climate Disclosure Standards Board (CDSB, an initiative of CDP) and the Value Reporting Foundation by June 2022; and
3. The publication of prototype climate and general disclosure requirements developed by the Technical Readiness Working Group (TRWG).

According to the IFRS Foundation Trustees, these important developments will "provide the global financial markets with high-quality disclosures on climate and other sustainability issues" and "fulfill the growing and urgent demand for streamlining and formalizing corporate sustainability disclosures." We agree with the IFRS Foundation Trustees surrounding these developments.

These developments matter not only to reporting issuers, but also to all companies. Accounting has traditionally not provided sustainability information. Having globally accepted and consistent standards will put further pressure on companies from their providers of capital to account for and disclose their climate-related risks and opportunities. ESG-driven investors (and they are many) will now have additional standardized information for which to assess investment decisions and reallocate capital.

Montréal makes the cut

Known internationally as Canada's most cosmopolitan city, Montréal along with Frankfurt, Germany, were chosen as the locations of the ISSB. Having a location in

Montréal was no small feat, and involved a yearlong effort led by CPA Canada, Montreal International and Finance Montreal along with stakeholders in the business, academic, environmental sectors, as well as the Assembly of First Nations of Québec and Labrador. Major financial players such as the Big 5 banks, pension plans, insurance companies and the large accounting firms, including BDO, supported the bid. Montréal has hosted many international organizations in the past, including the global pact to reduce ozone depleting substances (known as the Montréal Protocol) in 1987. It ranks third in North America's Global Green Finance Index 7 ranking.

Financial statements and sustainability reporting

International capital markets run mostly on two financial reporting standards; the US GAAP in the USA and IFRS in the rest of the world. The US Financial Accounting Standards Board (FASB) oversees US GAAP while the International Accounting Standards Board (IASB) oversees IFRS (or the International Financial Reporting Standards). Although the ISSB falls within the IFRS Foundation, the goal of the IFRS Foundation is for the ISSB to serve as a baseline for globally consistent disclosures. The hope is the U.S. Securities and Exchange Commission will look to IFRS Sustainability standards in developing its disclosure requirements.

Although the sustainability reporting Standards will be independent of financial reporting standards used for preparing financial statements, many of the risks and opportunities that need to be considered in sustainability reporting need to also be considered in the financial statements. As reporting evolves, it is essential there is a consistent narrative between the financial statements and sustainability reporting, as both are to meet the needs of the providers of capital. To see the link between sustainability and financial reporting, see BDO's 2021 Year-End Sustainability Reporting Update in their IFRS Knowledge Centre.

Consolidation intensifies

The IFRS Foundation also confirmed it would work to consolidate the CDSB, an initiative of CDP[1], and the Value Reporting Foundation by June 2022.

The CDSB Framework for reporting environmental and climate change information is designed to help organizations prepare and present **environmental information in mainstream reports for the benefit of investors**. It allows investors to assess the relationship between specific environmental matters and the organization's strategy, performance and prospects. The CDSB Climate Change Reporting Framework 1.0 was released in 2010 and was updated in April 2018 to align with the TCFD Recommendations. The Framework is not complicated and speaks in broad terms. The document is only 36 pages. It is comprised of six guiding principles and twelve 12 reporting requirements, which have to be met in order to claim compliance with the CDSB Framework. The CDSB operates the TCFD Knowledge Hub, which provides various resources related to TCFD implementation.

The Value Reporting Foundation is a global non-profit organization that offers a comprehensive suite of resources designed to help businesses and investors develop a shared understanding of **enterprise value –how it is created, preserved or eroded over time**. It was formed June 9, 2021 by the merger of the International Integrated Reporting

Framework (IIRC) and the Sustainability Accounting Standards Board (SASB). The resources – including Integrated Thinking Principles, the Integrated Reporting Framework[2] and SASB Standards – can be used alone or in combination, depending on business needs.

The SASB framework provides **sector-specific guidance for 77 industries** on a broad range of ESG topics, covering issues such as GHG emissions, energy and water management, data security and employee health and safety, while providing sector-specific guidelines emphasizing topics SASB believes are material for issuers in those sectors.

The climate and general disclosure requirements developed by the TRWG incorporate elements of CDSB, SASB and IIRC guidance along with TCFD guidance. One thing is certain: given the prominence of IFRS Foundation, those promoting sustainability and climate change in particular have gained a powerful new ally and tool.

How this ties in with the TCFD recommendations

BLG's earlier articles *TCFD: Tie board & management compensation to climate goals + 6 more new metrics* and *TCFD implementation: the shifting landscape of climate change policy in North America* outline the TCFD Recommendations in some detail. From the outset, there was concern over how the TCFD Recommendations should be applied with respect to the abundance of existing standards. Conscious of this, in 2017 when the TCFD Recommendations were first published, the TCFD included an analysis of alignment between the TCFD Recommendations and existing standards. Since 2017 however, there has been a global shift to integrate the TCFD Recommendations with existing standards such as SASB and the CDSB. This is possible since the TCFD Recommendations and associated recommended disclosures together constitute a reporting *framework*. The standards are the tools to help implement such framework. The development of the proposed consolidated sustainability standards by the IFRS Foundation is essential to create a comprehensive, transparent and comparative disclosure regime. Such a standard will provide investors and firms with essential information to make the right business decisions to reduce their GHG emissions, reduce their exposure to climate risk and invest in climate change-related opportunities. While most climate-change related reporting remains voluntary in Canada and the U.S. at this time, a number of other jurisdictions, including the United Kingdom, have made it mandatory for certain firms. Canada is expected to follow suit. As recently as November 2021, the Canadian Securities Administrator stated its intention to put in place reporting requirements related to climate change based on the TCFD requirements.

BLG & BDO

See BLG's Climate Change page and BDO's Sustainability Services page for an outline of climate change and sustainability services. For additional questions, please reach out to one of the authors or key contacts below.

BDO Canada provides assurance, accounting, tax, and advisory services to a broad range of clients across the country. BLG and BDO have advised clients with respect to climate change related risks, disclosure, governance, carbon offsets, energy transition, M&A considerations, accounting, financial disclosure and operationalization of metrics.

[1] CDP, formerly the Climate Disclosure Project, promotes transparency and disclosure for the natural environment. Companies, cities, states and investors use CDP to disclose certain metrics and practices related to climate, forest and water by answering the CDP questionnaires (tailored to industry, sector, etc.), thereby creating a comparable disclosure platform. It provides an annual A-list of companies that are transparently disclosing their environmental data.

[2] An integrated report aims to provide insight about the resources and relationships used and affected by an organization - these are collectively referred to as “the capitals” in the <IR> Framework. It also seeks to explain how the organization interacts with the external environment and the capitals to create, preserve or erode value over the short, medium and long term.

By

Kristyn Annis

Expertise

Capital Markets, Banking & Financial Services, Corporate Commercial, Climate Change, Financial Services

---

BLG Offices

Calgary

Centennial Place, East Tower
520 3rd Avenue S.W.
Calgary, AB, Canada
T2P 0R3

T 403.232.9500
F 403.266.1395

Ottawa

World Exchange Plaza
100 Queen Street
Ottawa, ON, Canada
K1P 1J9

T 613.237.5160
F 613.230.8842

Vancouver

1200 Waterfront Centre
200 Burrard Street
Vancouver, BC, Canada
V7X 1T2

T 604.687.5744
F 604.687.1415

Montréal

1000 De La Gauchetière Street West
Suite 900
Montréal, QC, Canada
H3B 5H4

T 514.954.2555
F 514.879.9015

Toronto

Bay Adelaide Centre, East Tower
22 Adelaide Street West
Toronto, ON, Canada
M5H 4E3

T 416.367.6000
F 416.367.6749