Big shifts, small steps

Canadian addendum:
Survey of Sustainability Reporting 2022

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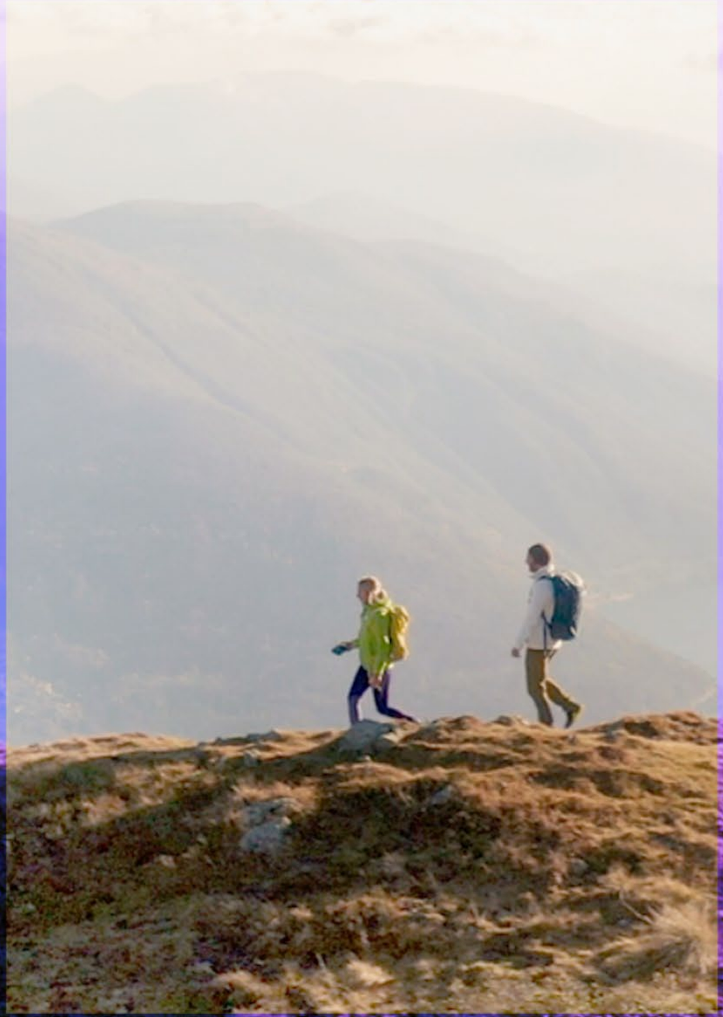


Introduction

Welcome to the Canadian addendum for KPMG's biennial Survey of Sustainability Reporting 2022

There is an increased need for Canadian businesses to account for, and publicly report on, an expanded universe of performance information which extends beyond financial performance. As more companies focus on transparency, a widening range of topics are being acknowledged as material. This is good news all around given the need for stronger sustainability and ESG disclosures to enable better business performance assessment beyond purely financial measures.

In connection with KPMG's recent Global Survey of Sustainability Reporting, KPMG in Canada has conducted a deep dive into the sustainability and ESG disclosure practices of the largest 200 Canadian companies (and their international parents, where relevant).

The research examines whether these companies publicly disclose their management practices and/or performance information relating to a wide range of topics and takes a closer look at three interrelated themes in greater detail:

1. Biodiversity and nature-based solutions
2. Indigenous reconciliation
3. Respect for human rights.

The theme of KPMG's global report is 'Big shifts, small steps', which highlights the many ways in which the world has changed over the past 2 years, and how businesses are evolving and shifting their priorities to reflect the world around them. Both the global survey and this Canadian report provide information and insights for a wide range of stakeholders including those who prepare sustainability reports, investors, analysts, asset managers, customers and ratings and ranking providers who now factor sustainability and ESG information into their decision making.

Determining which companies to survey: our methodology

The Canadian survey assessed the disclosure practices of the largest 200 Canadian companies by revenue, as per the Financial Post's recent FP500 ranking (2021 edition, 2020 rank) (Canadian N200). The Canadian N200 includes public firms, private companies, subsidiaries and crown corporations, and excludes pure holding companies. Unless otherwise noted, all statistics in this report are reflected as a percentage of the N200 (x/200).

Thirty-seven of the N200 are subsidiaries of a parent company that sits outside of Canada, only 6 of which report on Sustainability or ESG performance at the subsidiary level.

Executive summary

91%

of N200 companies report on Sustainability or ESG performance

56%

of N200 companies report climate risks in line with **TCFD** recommendations

72%

of N200 report carbon reduction targets

Less than half of companies disclose management approach and / or performance information regarding:

biodiversity loss (35%)

Indigenous reconciliation (39%)

50%

Companies disclose management approach and/or performance information regarding respect for human rights.

30%

of N200 companies have adopted or intend to adopt science-based targets for carbon reduction as defined by the **Science Based Targets initiative (SBTi)**

Canadian trends in Sustainability & ESG reporting

Sustainability and ESG reporting remains standard practice for Canada's largest companies

91 per cent of the N200 report on their sustainability or ESG performance which falls only slightly short of the G250[1] (96 per cent).

Although the general reporting rate is high, the quality and consistency in reporting is wide ranging in Canada. Behind the strong showing on reporting rates, there is a great deal of anticipation with regards to emerging sustainability reporting requirements which is expected to help enhance comparability and reliability of information.

Key findings:

- 64 per cent of N200 companies include Sustainability or ESG information in their annual financial report, highlighting the risk that many companies may be taking a siloed approach to managing and measuring Sustainability or ESG performance.
- Only 36 per cent of the Canadian N200 include a formal assurance statement in their Sustainability or ESG reporting, trailing the 63 per cent assurance rate for the G250.
- The global assurance rate is bolstered by a few countries that have recently seen rapid increases in their domestic assurance rates such as China, where rates are up 15 per cent over the past two years. The Canadian rate is likely to increase in the coming years with the impending introduction of securities regulatory requirements which may include potential future assurance requirements.

Ample opportunities for reporting improvement remain. For example, of the companies that identify which of the UN Sustainable Development Goals (SDGs) it considers most relevant to its business, few companies actually disclose both the positive and negative effects it has on achieving those SDGs. Some companies take a 'single materiality' approach to reporting, focusing only on the impact to business, while others are addressing both how environmental, social and governance factors are affecting the business, as well as the business' impacts on the environment and society, otherwise known as 'double materiality'.

1 The G250 refers to the world's 250 largest companies by revenue based on the 2021 Fortune 500 ranking

Qualitative vs. Quantitative Reporting

Ten years ago, sustainability reports often only highlighted 'good news stories' rather than providing a balanced and comprehensive view of ESG performance, leveraging data to set targets and measure progress. Today, KPIs and metrics (often presented in dashboards) are more common, and reports are typically organized by material ESG topic.

However, many companies — particularly those in the early stages of the sustainability reporting journey — are likely to rely on qualitative disclosure to evidence their commitments. This is especially true when it comes to discussing topics like biodiversity, Indigenous reconciliation and respecting human rights. As reporting matures on these topics, disclosures should evolve to include data-driven measures of commitment, performance and progress.

Characteristics of strong qualitative reporting include transparent and balanced disclosure, commitments to meaningful, bold and measurable targets and detailed descriptions of internal policies and procedures, including any gaps or areas for improvement.

Emerging regulation helps drive reporting

Anticipated regulation aligned with the Taskforce on Climate-related Financial Disclosures (TCFD) is emerging in some sectors (OSFI-B15 will be finalized in 2023, requiring federally regulated financial institutions to create robust, data-driven climate reporting) and is likely on the horizon for others. In fact, there are several Canadian draft standards and rules in development that are anticipated to align closely with the TCFD framework.

56 per cent of the N200 indicate their climate reporting aligns to TCFD recommendations

The International Sustainability Standards Board (ISSB) is also aiming to finalize its reporting standards in 2023. As the Canadian Standards counterpart to the ISSB, the Canadian Sustainability Standards Board (CSSB) are already mobilizing in anticipation of the work required in 2023 to review and endorse the ISSB standards.

30 per cent of the N200 indicate they have adopted or intend to adopt science-based targets for carbon reduction (as defined by the Science Based Targets initiative (SBTi))

A somewhat different type of emerging requirement relates to those which are considered 'public commitment critical'. With a significant number of Canadian organizations having made public commitments to reduce carbon emissions and/or achieve net zero, there is a growing expectation that progress is regularly communicated.

Sectors with high overall rates of disclosure

Oil & Gas (11 companies)

The oil & gas industry has the highest overall rates of disclosure, reflecting heightened investor, rights holders and stakeholder expectations for sector participants to disclose the sustainability impacts of their activities. Oil and gas companies may also face disclosure requirements they must comply with in the course of their day-to-day operations, such as those required for permitting.

100% of oil and gas companies surveyed report on Sustainability or ESG performance

82% per cent of companies include Sustainability or ESG information in their annual financial report

100% align reporting to TCFD recommendations

Financial Services (37 companies)

Currently 68 per cent of Canada's largest financial services companies report on carbon reduction targets. Many of these financial institutions play a critical role in financing the economic activities of other industries, including both heavy polluters and those producing low-carbon alternatives. Of the 68 per cent reporting carbon reduction targets, 52 per cent include their financed emissions in those targets.

81% of financial services companies surveyed report on Sustainability or ESG performance

65% of companies include Sustainability or ESG information in their annual financial report

65% align reporting to TCFD recommendations

Utilities (20 companies)

Utilities companies are uniquely positioned to lead the development and rollout of flexible, sustainable energy technologies and solutions, placing them at the heart of Canada's broader energy transition plan. As such, 95 per cent of utilities companies report on their Sustainability or ESG performance. However, only 32 per cent of companies that do report on their Sustainability or ESG performance include a formal assurance statement in their disclosure.

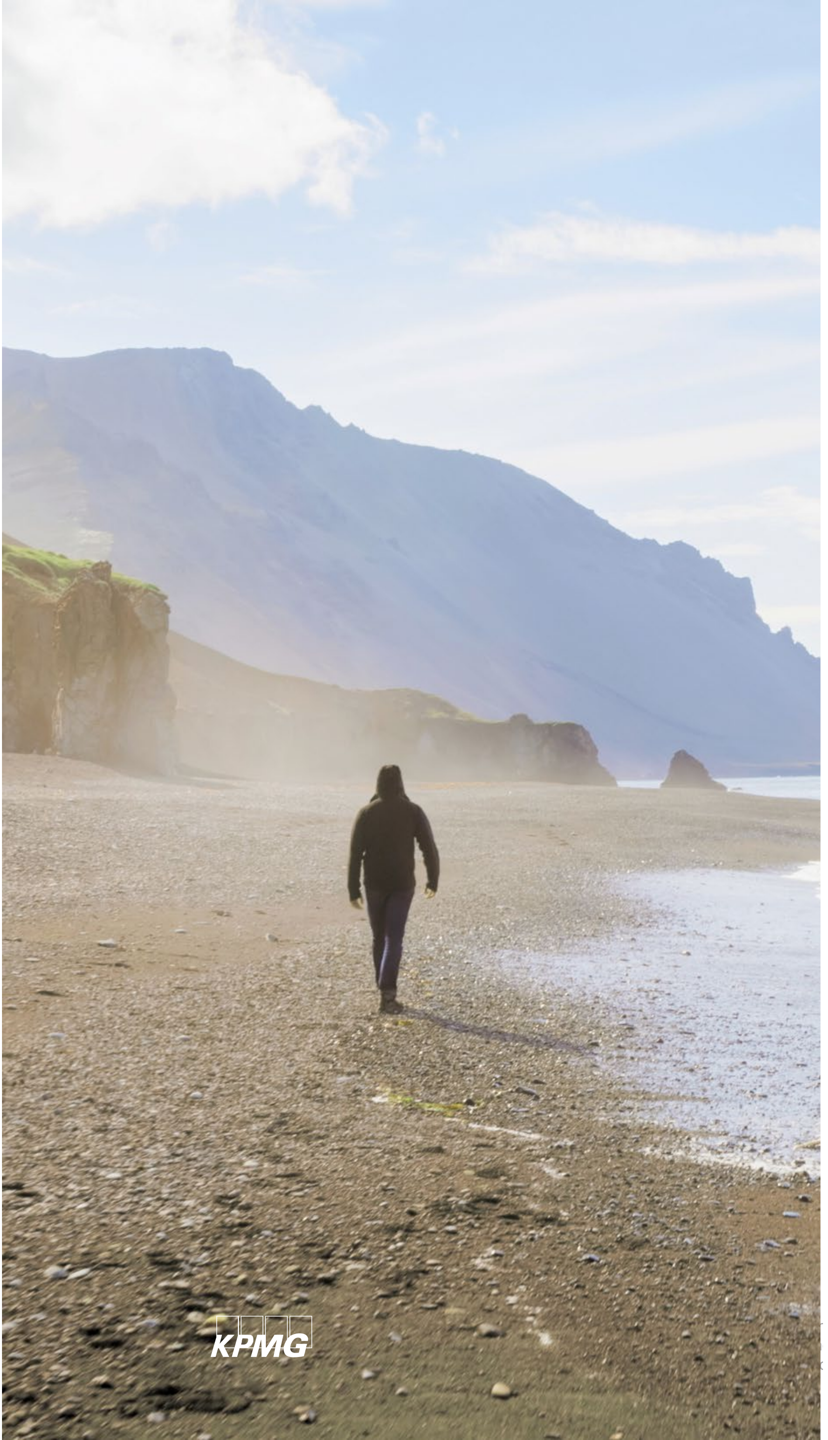
95% of utilities companies surveyed report on Sustainability or ESG performance

70% of companies include Sustainability or ESG information in their annual financial report

65% align reporting to TCFD recommendations

Spotlight on

Biodiversity, Indigenous reconciliation and respect for human rights



All Canadian businesses, regardless of industry, have a responsibility toward protecting against biodiversity loss and preserving natural capital, advancing Indigenous reconciliation and respecting human rights.

Percentage of N200 companies disclosing their management approach and / or performance information regarding:

35%	39%	50%
Biodiversity & Natural capital	**Indigenous reconciliation**	**Respect for human rights**

Overall, reporting on these themes is much less mature than reporting on other topics like climate change and equity, diversity and inclusion. This is likely to improve in the future with growing acknowledgement among the business community of the need for clearer reporting on these important matters.

Biodiversity and nature-based solutions

The global perspective: Despite growing awareness of biodiversity loss as a critical issue, less than half of G250 companies recognize this loss as a risk to the business. That said, the launch of the Taskforce on Nature-related Financial Disclosures (TNFD) and the EU's Corporate Sustainability Reporting Directive (CSRD) frameworks are expected to drive up reporting in the immediate years.

Nature's contribution to the global economy is estimated to be US$125 trillion per year, and over 50% of the world's GDP is moderately or highly dependent on nature and its services[2].

All businesses depend on nature and its services either directly or through their supply chains, and business and investment activities can directly and indirectly drive nature loss. This relationship creates risks — and opportunities — for business and society.

Our economy is heavily dependent on our natural capital yet only 35 per cent of our largest companies publish biodiversity and nature-based solutions disclosures.

This stands in stark contrast to how Canadian companies report on carbon reduction targets (72 per cent), despite the upstream and downstream interactions between climate, carbon and biodiversity.

Many companies are just starting to report risks and impacts related to biodiversity and natural capital while frameworks and guidance are still in development (such as TNFD). As a result, the picture of what 'good biodiversity reporting' looks like is still unclear. Companies that did publish biodiversity and natural capital disclosures typically did so by way of anecdotal examples and case studies that do not typically demonstrate how the business is addressing these issues. Metrics and targets are rarely disclosed, and reporting is seldom policy driven. To improve reporting while expectations become clearer, companies can take the following steps:

1. Bolster and evidence your understanding of what impacts (both positive and negative) your organization has on biodiversity and the organization's key dependencies on ecosystem services. Assess these impacts from a risk management standpoint and begin developing metrics and KPIs to measure and assess this risk.
2. Monitor how new frameworks such as TNFD are progressing and engage with the development process where appropriate.
3. When developing your climate change and decarbonization strategies, integrate nature-based solutions.

2 World Economic Forum, 'Nature Risk Rising: Why the Crisis Engulfing Nature Matters for Business and the Economy', January 2020 available at: https://www3.weforum.org/docs/WEF_New_Nature_Economy_Report_2020.pdf

Biodiversity and natural capital preservation is the next frontier in environmental disclosures, following closely behind climate change. The likely increase of TNFD-aligned directives and clear signals from the Canadian government around its focus on protecting biodiversity[3], (in 2021, Canada joined 128 nations in a pledge to halt and reverse forest loss and land degradation by 2030 at the 2021 UN Climate Change Conference (COP26)), speak to this fact. We expect to see more commonplace and robust biodiversity and natural capital reporting across Canada's largest companies, especially following the United Nations Biodiversity Conference (COP 15).

Thirty-five per cent of N200 companies disclose management approach and / or performance information regarding biodiversity and natural capital.

100% Oil & Gas	36% Automotive
51% Industrials, Manufacturing & Metals	25% Transport & Leisure
50% Utilities	15% Retail
47% Food & Beverage	14% Financial Services
44% Other	5% Tech, Media & Telecom

3 https://www.fsds-sfdd.ca/en

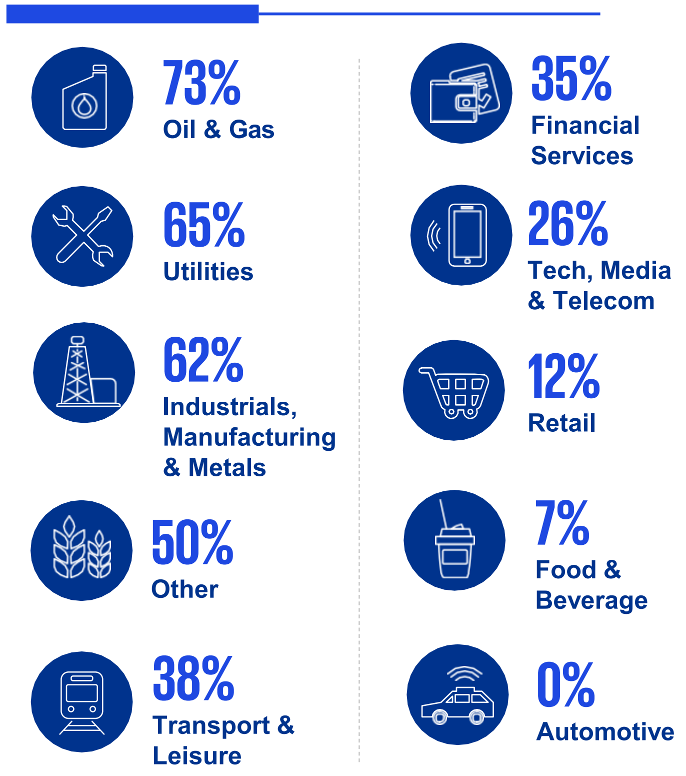
Indigenous reconciliation

Examples of Canadian businesses reporting on Indigenous rights and reconciliation are starting to emerge among the N200, however there is still a great deal of room to grow — 39 per cent of the N200 publish management approach or performance related information in connection with Indigenous reconciliation efforts in their reporting.

Most notably, Indigenous reconciliation disclosures are lacking robustness and completeness. Often, companies list reconciliation as a material topic, or describe efforts to create working groups and reconciliation plans, and describe program initiatives like training and education. It is rare, however, to encounter examples that present a comprehensive management approach which includes a policy, initiatives and actions, future commitments / goals, and performance measures. Reporting rates also vary widely across industries. Seventy-three per cent of Canada's largest oil and gas companies publish Indigenous reconciliation information, but this falls to 12 per cent in the retail sector.

The majority of reporting on Indigenous reconciliation is considered qualitative in nature, with the exception of occasional performance data on Indigenous employment, procurement spend and reconciliation training volume data (e.g. number of employees having completed training). Good example practices of disclosures in this category include the alignment of goals and work plans to section 92. of the Calls to Action of the Truth & Reconciliation Commission of Canada, and policies guiding engagement and free, prior and informed consent.

Thirty-nine per cent of N200 companies disclose management approach and/or performance information regarding Indigenous reconciliation.



Respect for human rights

Fifty per cent of the N200 address the topic of respect for human rights in their public disclosures, however, the large majority of these would be considered foundational in practice (e.g., acknowledging adherence to ILO Labour Conventions). The N200 infrequently reference alignment of their management and reporting approach to leading global frameworks like the United Nations Guiding Principles on Business and Human Rights (UNGPs)[4].

Ensuring human rights are protected across the entire value chain is a key area of regulatory focus internationally. For example, the UK Modern Slavery Act which was introduced in 2015 is set to see sweeping updates soon to reflect the modern-day realities of human rights labour challenges and related disclosure requirements. The Australian act is undergoing a similar refresh.

Canada does not yet have federal modern slavery disclosure requirements, however Bill S-211 is nearing its third reading in the House of Commons with expected royal assent to be received in 2023. This would require certain entities to report on the measures they are taking to "prevent and reduce the risk that forced labour or child labour is used at any step in the production of goods in Canada or elsewhere by the entity or in the production of goods imported into Canada[5]".

Looking at human rights more broadly, in 2017, French law began requiring large companies to publish a 'vigilance plan' that "must establish effective measures to identify risks and prevent severe impacts on human rights and the environment resulting from the company's own activities and the activities it controls directly or indirectly[6]". Since it came into effect, several companies have faced lawsuits and formal notices for failing to 'comply or explain'.

"There are approximately 28 million people in situations of forced labour on any given day", according to new estimates published in a recent report from the International Labour Organization (ILO), Walk Free, and International Organization for Migration (IOM). The report also cites an increase of 2.7 million people in forced labour over the past 5 years[7]. This increase is driven almost entirely by the private economy, particularly industries such as service, manufacturing, construction, agriculture, and domestic work[8].

4 UN Guiding Principles Reporting Framework (ungpreporting.org)
5 https://www.parl.ca/legisinfo/en/bill/44-1/s-211?view=about
6 https://www.business-humanrights.org/en/big-issues/corporate-legal-accountability/frances-duty-of-vigilance-law/
7 https://www.ilo.org/wcmsp5/groups/public/---ed_norm/---ipec/documents/publication/wcms_854733.pdf
8 https://www.ilo.org/wcmsp5/groups/public/---ed_norm/---ipec/documents/publication/wcms_854733.pdf

Respect for human rights

Leading practice in human rights reporting demonstrates a proactive and iterative approach to assessing and managing human rights risks, with oversight at the most senior-levels of the business. This may include:

Commitments and governance

- A human rights statement or policy commitment to implement the UNGPs.
- A description of the nature of risks and controls related to employees, customers, communities an sub-contractors or other indirectly related third parties' rights.
- A description of governance and oversight of human rights and frequency of board reporting.

Risk assessment and management

- A description of the management approach for ongoing risk-based human rights due diligence and monitoring.
- Disclosure of collaboration with external experts to ensure sufficient expertise and independence, for example when assessing supplier or third-party risks.

Grievance and remedy

- Disclosure of primary grievance channels
for stakeholders throughout the value chain, including who has access to the channels.
- Disclosure indicating the effectiveness of
grievance mechanisms.

Fifty per cent of N200 companies disclose management approach and/or performance information regarding respect for human rights.

82% Automotive

73% Oil & Gas

63% Transport & Leisure

57% Industrials, Manufacturing & Metals

50% Other

49% Financial Services

47% Food & Beverage

47% Tech, Media & Telecom

31% Retail

30% Utilities

How we can help

What should you include in your ESG disclosures?

Sustainability reporting is a rapidly evolving field with a variety of reporting frameworks, with some overlapping requirements but no global consistency. The range of ESG metrics and disclosure frameworks used is vast and varies by sector, size and complexity, as well as location. Your performance is being ranked by many different indices, scorers and benchmarks. How do you articulate clearly what you're doing in key ESG areas?

How we support your ESG reporting

KPMG firms are at the forefront of sustainability reporting, helping our clients develop responsible and sustainable strategies, business models, operations and investments. We combine ESG know-how with technical accounting and reporting experience. And we have experience supporting listed and private businesses, across all sectors and at all levels of maturity. There are tangible ways businesses can invest in sustainability reporting:

- Understand what your stakeholders expect you to report on, and help you articulate your ESG performance clearly.
- Create effective corporate ESG reporting. We can provide training to your team and undertake materiality assessments or benchmarking.

  We also support content identification and development, providing advice on data requirements and the best reporting structure, as well as undertaking compliance reviews.
- Align your ESG reporting with key mandatory and voluntary reporting frameworks. These could include the GRI Standards, SASB, and the EU's CSRD.
- Improve the quality and efficiency of ESG non-financial reporting. We help you identify data requirements, prepare methodology statements and review existing reporting processes to assess assurance readiness.
- Understand the impact of climate change on financial statement disclosures. We can help you review ESG disclosures for compliance with existing reporting requirements and benchmark against good practice.

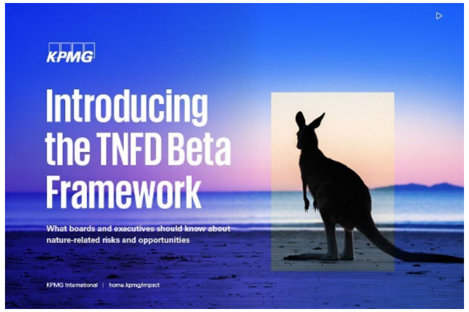
An increasing number of today's investors take non-financial data just as seriously as financial data. They believe that those companies that measure and report ESG risks are also likely to be managing these risks better and delivering greater long-term value.

KPMG firms know the power of ESG to transform your business. KPMG ESG Advisory can show you how to enhance trust, mitigate risk and unlock new value as you build a sustainable future.

Read more

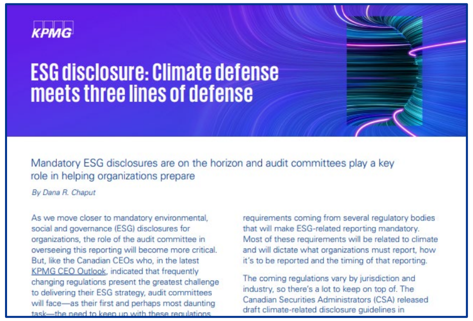
2022 CEO Outlook: The ESG imperative

Leveraging an integrated strategy to foster transformative ESG change



Introducing the TNFD Beta Framework: How can organizations grow with nature?

10 things boards and executives should know about nature-related risks and opportunities



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ESG disclosure: Climate defense meets three lines of defense

Mandatory ESG disclosures are on the horizon and audit committees play a key role in helping organizations prepare

By Dana R. Chaput

As we move closer to mandatory environmental, social and governance (ESG) disclosures for organizations, the role of the audit committee in overseeing this reporting will become more critical. But, like the Canadian CEOs who, in the latest KPMG CEO Outlook, indicated that frequently changing regulations present the greatest challenge to delivering their ESG strategy, audit committees will face—as their first and perhaps most daunting task—the need to keep up with these regulations

requirements coming from several regulatory bodies that will make ESG-related reporting mandatory. Most of these requirements will be related to climate and will dictate what organizations must report, how it's to be reported and the timing of that reporting.

The coming regulations vary by jurisdiction and industry, so there's a lot to keep on top of. The Canadian Securities Administrators (CSA) released draft climate-related disclosure guidelines in

ESG disclosure: Climate defense meets three lines of defense

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