



Millani's 6th Annual ESG Disclosure Study: A Canadian Perspective

September 14th, 2022

A study of the 2021 ESG disclosures of Canadian S&P/TSX Composite Index constituents

Since 2017, Millani has been conducting annual research to assess and understand the ESG (environmental, social, and governance) reporting landscape in Canada, providing insight and context to our research and identified trends. This year's study of the S&P/TSX Composite Index found that 80% of constituents published an ESG report. In examining these reports in detail, we draw three key takeaways:

- As it stands, 80% of companies are producing an ESG report but with market standards for ESG reporting shifting, simply reporting may no longer be sufficient.
- Despite the resource intensity of ESG reporting, the proportion of small capitalization firms producing an ESG report has substantially increased, raising the demand for quality ESG reporting and transparency throughout the supply chain.
- Investors and other financial stakeholders are asking for decision useful ESG data, and although the number of reports has increased, current disclosures are still not hitting the mark.

This report explores these takeaways and more ESG reporting findings from framework alignment to other ESG topics such as climate change, human capital, and biodiversity.

ESG disclosure: A Canadian perspective

The newly formed International Sustainability Standards Board (ISSB), which is developing new disclosure standards for sustainability-related financial information and climate-related information, may finally provide a response to the widespread demand for ESG disclosure standardization. Some jurisdictions are moving towards mandating climate disclosure and even requiring third-party assurance on climate-related information and other ESG-related data.¹ Canada is headed in the same direction, as the Canadian Securities Administrators (CSA) requested guidance on its consultation around a mandatory climate disclosure framework for issuers last October 2021.² Equity, diversity and inclusion (EDI) and human capital management are moving further into the spotlight, as investors are increasingly requesting more information on these topics.³

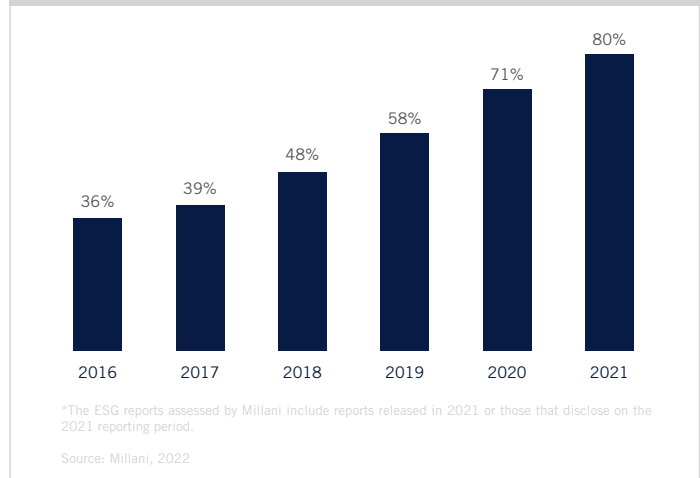
Millani has been assessing ESG disclosures in Canada since 2017, offering insights on observed developments and emerging trends. Millani examined the most recent ESG disclosures of the 238 constituents which comprise the S&P/TSX Composite Index⁴, with particular attention to the use of reporting frameworks, the depth of climate-related disclosures, and the level of discussion around ESG topics. As the only organisation producing research of this level of depth in Canada, this report adds value to the Canadian ESG disclosure landscape.

ESG disclosure over the years

As of August 31, 2022, 80% of companies listed on the S&P/TSX Composite Index released a report dedicated to the disclosure of ESG topics, compared to 71% in the previous year, which represents a 13% increase.⁵ As revealed by *Figure 1*, the growing proportion of Canadian issuers with an ESG, Sustainability, or similar report⁶ over the years, supports that ESG disclosure has become essential to thrive in the market. Companies that fail to address ESG issues are falling behind.

Figure 1

The percentage of Canadian issuers with dedicated ESG reports has significantly grown

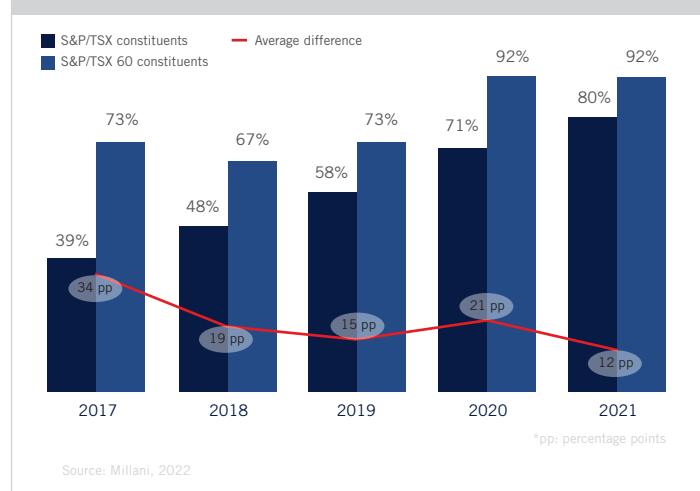


The S&P/TSX 60 leads by example

Millani found that the proportion of issuers that released a dedicated ESG report was again greater among the S&P/TSX 60. *Figure 2* shows that 92% of S&P/TSX 60⁷ constituents published an ESG report.

Figure 2

Corporate issuers with dedicated reports



Note: Due to differing reporting timelines, certain companies that disclose ESG data may not have yet issued their 2021 ESG report.

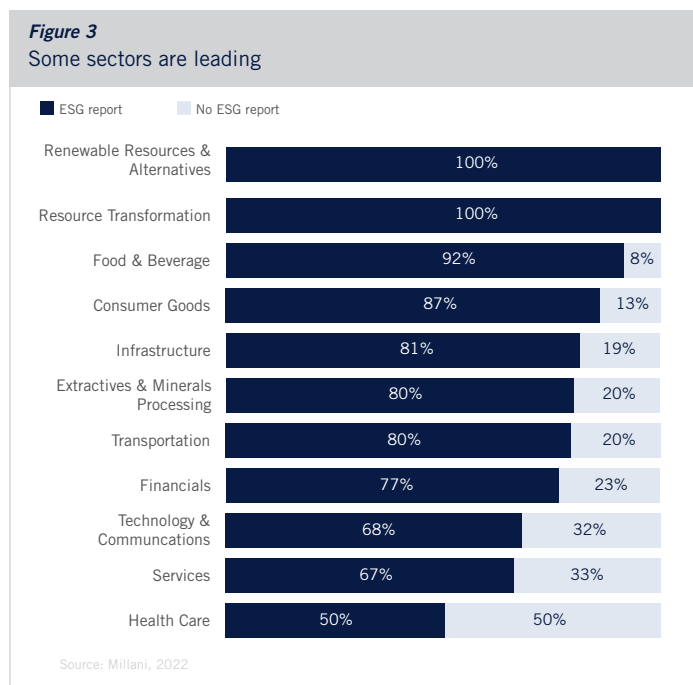
1. New social and environmental reporting rules for large companies, European Parliament, June 2022.
2. Canadian securities regulators seek comment on climate-related disclosure requirements, Canadian Securities Administrator, October 2021.
3. Semi-Annual ESG Sentiment Study of Canadian Institutional Investors, Millani, July 2022.
4. S&P/TSX Constituents, TMX, July 2022.
5. Millani's studies analyze reports issued in the previous year, which are often named as the previous year, reflecting the year of the data. We consider a report released in 2021 or covering 2021 reporting year data to meet this criterion for our 2022 study.
6. Report nomenclature varied such as: "Sustainability" (45%), "ESG" (43%), "Corporate Social Responsibility" (6%), or other reports (6%). In all other sections of this paper, the term "ESG report" refers to all reports regardless of name.
7. The S&P/TSX 60 includes the 60 largest corporations by market capitalization on the TSX.

While S&P/TSX 60 constituents have responded to market demand more quickly in recent years than their smaller market capitalization counterparts, the overall proportion of ESG report issuers has continued to rise, and the gap is currently shrinking.

Despite the resource intensity of ESG reporting, Millani's research found that both small and large capitalization firms are producing ESG reports. This is reflected as 93% of the S&P/TSX composite's large capitalization⁸ companies, and an impressive 65% of small capitalization⁹ companies, published an ESG report. This finding demonstrates that, although it may be more challenging for smaller firms to produce an ESG report, they are nonetheless keeping up with larger firms, exemplifying that all companies can disclose on ESG. This is great news considering the Canadian economy is heavily composed of small and medium-sized enterprises. Our study also identified more standalone reports on specific ESG topics, supporting the increase in ESG reporting across constituents.

Matters of sector

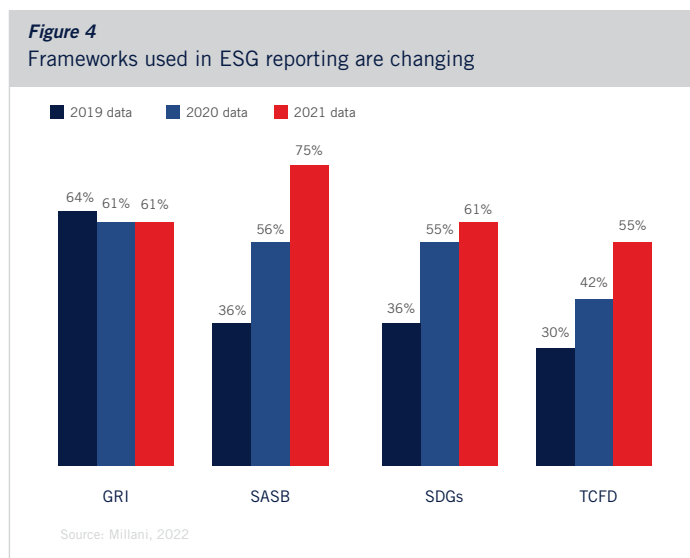
Millani also assessed the level of ESG disclosure amongst the 11 SICs sectors.¹⁰ *Figure 3* indicates that seven of the eleven sectors have 80% or more of their issuers publishing a report, a significant increase from last year's study, where only the Renewable Resources and the Resource Transformation sectors met this benchmark.



The Health Care sector continues to rank last in terms of ESG reporting, with half of its constituents producing a dedicated ESG report. Nonetheless, ESG reporting has increased the most in this sector since last year, moving from 25% to 50%. All sectors have increased their level of ESG disclosure since 2020, apart from the Renewable Resources sector, which remains at 100% with only one issuer.

Framework evolution

Since 2019, alignment to the Sustainability Accounting Standards Board (SASB), Task Force on Climate-related Financial Disclosures (TCFD), and UN Sustainable Development Goals (SDGs) reporting frameworks increased, whereas alignment to the Global Reporting Initiative (GRI) slightly decreased. The most significant changes were in the use of SASB and TCFD frameworks, which increased by 34% and 31% since 2020, respectively.



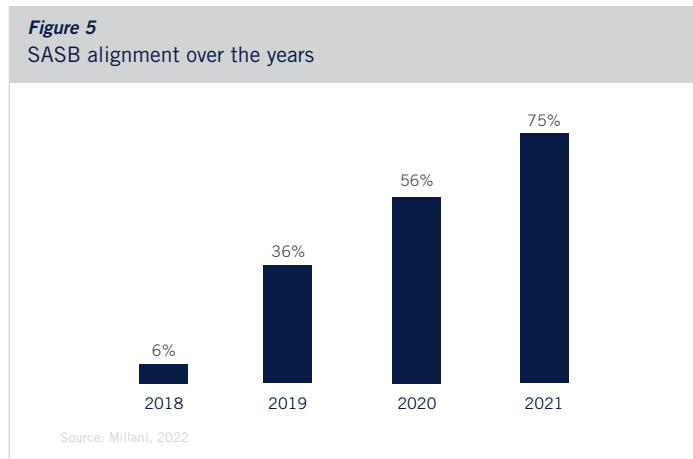
The adoption of the SASB standards by issuers over the past four years is significant, growing from 6% in 2018 to 75% in 2021, as shown in *Figure 5*. An additional 10% of ESG reports mentioned SASB, either making a commitment to align to the framework in the short-term, or expressing that the standards were used as a guideline to produce their ESG report. The rapid adoption of SASB may be explained by its industry-based focus on financial materiality, which addresses investors' needs to distinguish the most important sustainability topics for investment decisions, and responds to their continued request for SASB aligned disclosures.

8. Large capitalization: Market capitalization over C\$10 billion.

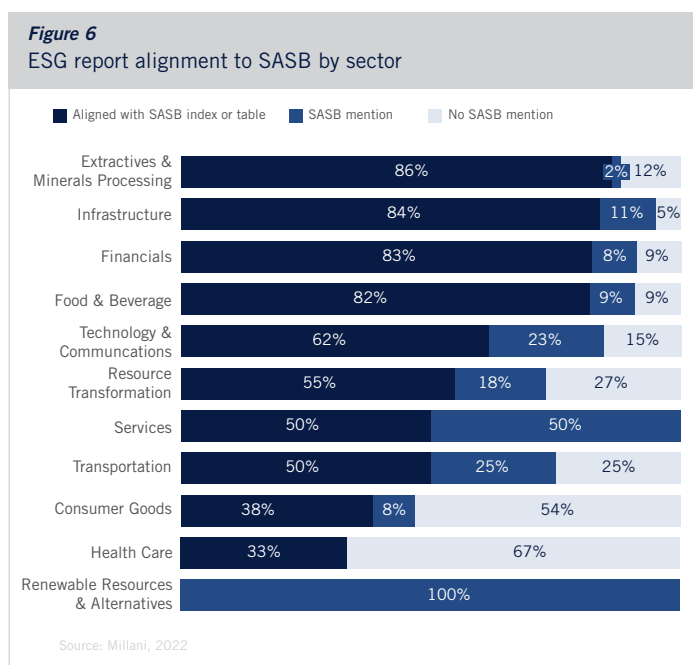
9. Small capitalization: Market capitalization between C\$300 million and C\$2 billion.

10. Sustainability Industry Classification System (SICS) sectors, as allocated by the Sustainability Accounting Standards Board (SASB).

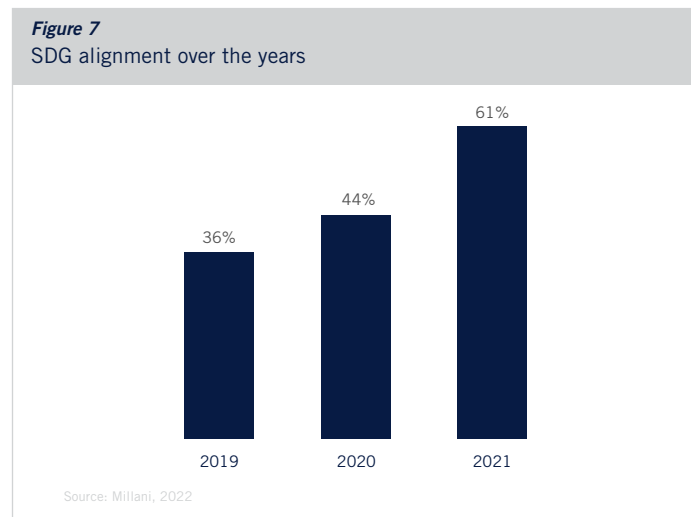
Since the ISSB committed to build on SASB and its industry-based approach to develop its standards, the standard-setting board encourages issuers and investors to continue using the SASB framework, until the IFRS Sustainability Disclosure Standards come into effect.¹¹



With 86% of ESG reports aligning with SASB, the Extractive & Minerals Processing and Financials sectors are leading, while the Services and Renewable Resources industries sectors have room for improvement.



Another increasingly adopted framework by Canadian issuers is the United Nations Sustainable Development Goals (SDGs). Currently, 61% of ESG reports referenced the SDGs, a 70% increase since 2019.



While this progress is encouraging, there is some concern around “SDG-washing”¹². While responding to investors’ request for more ‘outcome’ driven reporting,¹³ issuers need to defend their alignment with the SDGs. Standards,¹⁴ seals,¹⁵ and frameworks are being developed to address this risk, which will hopefully allow companies to demonstrate their alignment with the SDGs more meaningfully. Issuers can stay ahead by disclosing their strategy around SDG alignment in their reporting.

According to Millani’s most recent Semi-Annual ESG Sentiment Study of Canadian Institutional Investors, four ESG topics were top of mind to investors: climate change, EDI, human capital and biodiversity.¹⁶ Our research focused on these areas, and we share our findings below.

Climate disclosures

Millani’s ESG Investor Sentiment study found that 89% of investors ranked climate change as a priority. Investors emphasized a desire for issuers to provide net-zero and interim targets that connect to executive compensation, climate-related data (including Scope 1 to 3 emissions reporting), transition plans, and Task Force for Climate-related Financial Disclosure (TCFD) reports. Our research found that two-thirds of companies with net-zero commitments set interim targets, demonstrating that issuers are improving the purposefulness of their reporting.

11. *Why Investors Use SASB Standards*, SASB.

12. *Organizations’ engagement with sustainable development goals: From cherry-picking to SDG-washing?*, Heras-Saizarbitoria et al, August 2021.

13. *Semi-Annual ESG Sentiment Study of Canadian Institutional Investors*, Millani, July 2022.

14. *About the SDG Impact Standards for Enterprises*, SDG Impact.

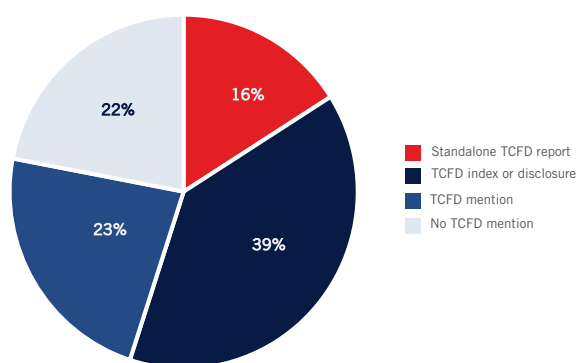
15. *Assurance Design and Implementation Working Group*, SDG Impact.

16. *Semi-Annual ESG Sentiment Study of Canadian Institutional Investors*, Millani, July 2022.

Among the S&P/TSX Composite Index constituents with a 2021 ESG report, 55% adopted the TCFD recommendations for their climate disclosures (see *Figure 8*), representing an 83% increase since the TCFD was implemented in 2019. The Financials sector is the most advanced, with 70% of ESG reports aligned with the TCFD and 39% issuing a standalone TCFD report. The Infrastructure and Extractive & Minerals Processing sectors follow with 68% and 65% of ESG reports aligned with the TCFD, respectively.

Figure 8

55% of ESG reports align to the TCFD



Source: Millani, 2022

Millani also investigated Canadian corporations' Carbon Disclosure Project (CDP) disclosures this year, finding that 51% of the S&P/TSX Composite Index companies submitted a climate change response. As for climate scenario analysis, 31% of issuers publishing an ESG report disclosed this information, a considerable increase from last year's 13%. Regarding greenhouse gas (GHG) emissions, Scope 3 emissions were disclosed in 49% of 2021 ESG reports. This only represents a slight increase from 2020, where 45% of ESG reports disclosed this type of data.

However, of the reports disclosing Scope 3 emissions, 34% have set Scope 3 emission reduction targets, a significant increase compared to 2020's 4%.

The participation of Canadian corporates in the Science Based Targets initiative (SBTi), which seeks to promote best practices in setting emissions reductions and net-zero targets in line with climate science, was also assessed. Millani found that only 16% of issuers who published an ESG report were SBTi certified or committed, supporting Millani's latest findings from Canadian institutional investors that such collaborative projects are not experiencing as much traction in Canada.¹⁷

As the velocity of news around climate increases, issuers are disclosing on climate ahead of proposed regulations.^{18, 19} Climate change related disclosures (TCFD, emissions reporting, etc.) are no longer a niche, they are common practice. This is an opportunity for issuers to get started on their climate change strategy and reporting, to understand how climate impacts their business before proposed regulations become practice. Climate reporting is evolving beyond measurement and target setting, issuers must produce data that demonstrates progress towards interim targets to fully meet investors' needs.

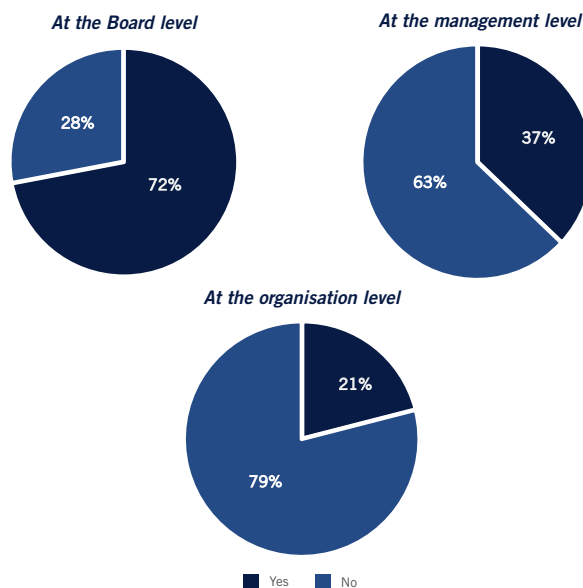
Human capital

Millani's latest ESG Investor Sentiment study revealed that 75% of respondents listed human capital or EDI among most important ESG topics.

From our research, we found that 95% of companies disclosed on gender diversity within some, or all levels of their organisation. In addition, 72% of companies reported an EDI target at the Board level, while 37% reported setting a target at the management level, and 21% reported setting a target at the organisation level. EDI targets include gender, racial, religious, sexual orientation, age, and disability diversity.

Figure 9

Issuers are disclosing on EDI targets



Source: Millani, 2022

17. Semi-Annual ESG Sentiment Study of Canadian Institutional Investors, Millani, July 2022.

18. The Enhancement and Standardization of Climate-Related Disclosures for Investors, SEC, March 2022.

19. Canadian securities regulators seek comment on climate-related disclosure requirements, Canadian Securities Administrator, October 2021.

With increased labour shortages, issuers should consider how they are managing this risk, and how they can strategically disclose relevant data. Doing so would address investors' desire for additional transparency on internal labour management processes and policies, including targets and performance.²⁰

Biodiversity

Biodiversity disclosures evolved in the past year, and investors consider biodiversity as an increasingly important topic given the potential impacts associated with biodiversity loss.²¹ The Task Force on Nature-related Financial Disclosures (TNFD) is proposing a similar recommendation framework as the TCFD, with a focus on assessing nature-related risks and opportunities. Millani has been a supporter of SASB since its inception, participating in its development, and has observed the significant adoption of the framework over the last four years. During the past three years, we have also observed the rapid market adoption of the TCFD framework. We now ask ourselves: once the TNFD publishes its recommendations in September 2023, how long will it take for the market to adopt this new framework?²² Adoption rates of ESG frameworks are becoming more common and increasingly rapid. For example, the newly formed ISSB is already prepared to integrate a biodiversity framework published by the Climate Disclosure Standards Board (CDSB).²³ Our research found that among 2021 ESG reports, already 43% dedicated a section to biodiversity, 33% disclosed biodiversity metrics, and 12% mentioned biodiversity targets.

The Extractives & Minerals Processing sector led the way with 80% of ESG reports dedicating a section to biodiversity. The Infrastructure and Consumer Goods sectors came in second and third, with 45% and 38% of reports devoting a section to biodiversity, respectively.

Beyond the topics discussed above, Millani's research extended to other important ESG topics in the market, which we have been analyzing over multiple years, and given special attention to throughout our work.

Disclosures of ESG topics

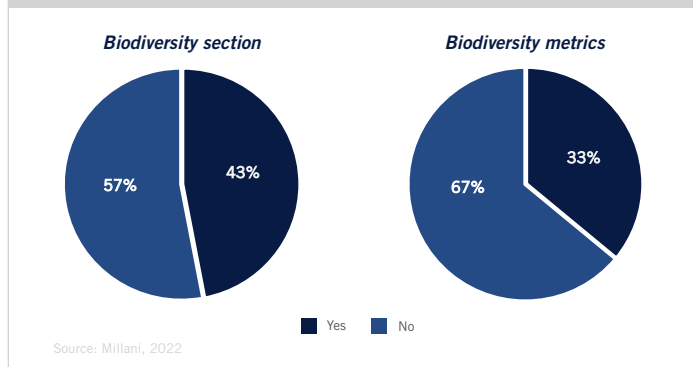
Indigenous relations

As Canada strives for economic reconciliation and a transition to a lower-carbon economy, the focus on Indigenous relations has been increasing. Currently, 51% of the S&P/TSX Composite Index constituents with an ESG report dedicate a section to their approach and management of Indigenous relations. Additionally, 27% of issuers with an ESG report disclosed Indigenous workforce representation, led by the Financials sector, which disclosed this information in 52% of reports. With growing investor interest in Indigenous reconciliation, we anticipate further attention and focus on this topic, with continued actions observed and assessed by the investor community.

Water

With record droughts and damaging floods witnessed around the globe, the issue of water is increasing. The number of ESG reports with a dedicated section on water grew significantly from 45% to 60% between 2019 and 2020, and climbed to 62% in 2021 reports. Millani assessed the inclusion of water metrics and targets in ESG reports, present in 67% and 24% of reports respectively. Water disclosures were more frequent in certain sectors such as the Extractives & Minerals Processing and Infrastructure sectors, correspondingly dedicating a section to water in 91% and 74% of ESG reports. While water dependency and needs greatly vary between sectors, water consumption and wastewater management remain important topics for issuers to consider. For those who wish to dive deeper into this topic, you may find further information in "[How Do Investors Assess Water Risks?](#)", published earlier this year by our team at Millani.²⁴

Figure 10
Biodiversity disclosure



20. Semi-Annual ESG Sentiment Study of Canadian Institutional Investors, Millani, July 2022.

21. Semi-Annual ESG Sentiment Study of Canadian Institutional Investors, Millani, July 2022.

22. Introducing the TNFD framework, TNFD, June 2022.

23. Application guidance for biodiversity-related disclosures, CDSB, November 2021.

24. Water Risk and Its Impact on the Financial Markets and Society, Walker et al, Palgrave Macmillan, 2021.

Supply chains

Following the United Kingdom and Australia, Canada is continuing its efforts to pass a Modern Slavery Act, which would require companies to outline the steps they are taking across their supply chains to prevent forced labour.^{25, 26} Canadian companies are already starting to address this topic, as 58% of constituents with an ESG report have a Supplier Code of Conduct. Our research has shown that Canadian companies of all sizes are moving on ESG reporting, resulting in increased scrutiny within their supply chains. Suppliers therefore must be responsive to their stakeholders' new reality if they wish to remain competitive.

Future of reporting

Are companies ready to align to the ISSB?

Considering our recent ESG Investor Sentiment study and the several ESG disclosure consultations underway around the world, demand for ESG is not slowing down. The ISSB's first two preliminary standards on sustainability-related financial information and climate-related disclosures are expected to be published by 2023, and may finally answer the call for ESG reporting standardization. But are issuers ready to align to the ISSB? Since the proposed standards are derived from the SASB and TCFD frameworks, their utilisation in ESG reports is a precursor to issuers' readiness for the new standards. While framework alignment of Canadian issuers has significantly increased over the past years, 25% and 45% of ESG reports still do not align to SASB and TCFD respectively, while an additional 20% of companies do not disclose ESG information. Considering the insights from Millani's ESG Investor Sentiment study and the multiple ESG disclosure consultations around the world, demand for ESG disclosures is only growing. Issuers will benefit from organizing themselves now in anticipation of what's to come. Another expected requirement from the ISSB standards is for issuers' ESG reports to align their ESG reporting period with their fiscal year, a requirement met by more than 86% of ESG reporters already.

The importance of an ESG strategy

While Millani's research found that 80% of S&P/TSX Composite Index constituents now release an ESG report, in line with the S&P 500 at 92% and the Russell 1000 at 70%²⁷, investors are looking beyond a report. Standardization is being sought such that investors can analyse the strategic importance of the reported issues.

At Millani, although we celebrate the increase in disclosures witnessed over the past 6 years, we maintain that quality is key. Where reporting started as a medium for organizations to explain why certain topics are more material to them than others, expectations are shifting for organizations to disclose how they manage those risks and opportunities. Investors are expressing their desire to understand more profoundly the impacts of these issues: how they are managed, which key performance indicators are tracked and how performance changes over time, an indication of an organization's ability to adapt to risks and mitigate future negative impacts. Leading companies demonstrate the strategic value of their material topics by including performance metrics into Board and management compensation.

ESG reporting is quickly moving from "Why" to "How" organizations are managing strategic matters, leading to competitive positioning, and value creation. In a volatile market, with a lack of talent, and driven by inflationary pressures, supply chain challenges, and shifting geopolitical conditions, firms who wish to remain competitive and continue to have access to capital should consider how their ESG reporting can become their competitive advantage.

Study methodology

This study incorporates all reports released in 2021 or covering 2021 reporting year data. The list of the 238 S&P/TSX Composite Index constituents was extracted on July 28th, 2022, including market capitalization value. The companies included in the S&P/TSX 60 are the 60 largest companies by market capitalization. Millani's analysis took place in July and August 2022, therefore the analysis is based on all ESG reports released up until August 31st, 2022. Corporations were categorized according to their SASB Sustainability Industry Classification System (SICS) sector. Millani inspected each ESG report and classified a metric as achieved if the documentation was included in the report. Millani used the procedures of inspection and observation of publicly available documents to conduct this study.

25. An Act to enact the Fighting Against Forced Labour and Child Labour in Supply Chains Act and to amend the Customs Tariff, Government of Canada, April 2022.

26. Bill S-211: Canada revives its fight against modern slavery, Norton Rose Fulbright, January 2022.

27. 2021 Sustainability Reporting in Focus, G&A Institute, 2021.



About Millani

Millani provides advisory services on ESG integration to both investors and companies. For the past 15 years, Millani has become the partner of choice for institutional investors. By providing advisory services on developing ESG communications, engagement and disclosure strategies and integrating material ESG issues into their investment strategies and decision-making processes, we help our clients reduce risks, increase returns, and create value. Millani is also leveraging this expertise and its experience in ESG consulting to help reporting issuers improve their ESG disclosure to financial stakeholders and optimize their market value.

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