



# Millani's Annual ESG Disclosure Study: A Canadian Perspective

A study of the S&P/TSX Composite Index  
and their ESG disclosures in 2019

September 8<sup>th</sup>, 2020

Over the past several years, Millani has been assessing the ESG (environmental, social and governance) and sustainability disclosures of the S&P/TSX Composite Index constituents, providing insight and context to the research and identified trends. With increasing demands from financial stakeholders for material information, we have gathered data on Canadian companies' uses of reporting standards and frameworks such as the GRI, SASB and TCFD, along with data on how many companies are disclosing on topics such as diversity, water scarcity and climate change.

## ESG Disclosure: A Canadian Perspective

Millani has been assessing ESG (environmental, social and governance) and sustainability disclosures in Canada for several years, gathering data on ESG information provided by Canadian public issuers, and delivering advice and insights on observed developments and trends.

With initiatives such as the EU Non-Financial Reporting Directive, which requires large companies to disclose information on management of social and environmental issues<sup>1</sup>, and the Ontario Capital Markets Modernization Taskforce making recommendations for “enhanced disclosure of material ESG information” compliant with the TCFD or SASB recommendations<sup>2</sup>, there is growing pressure from multiple stakeholder groups for companies to provide high quality, reliable ESG information.

In an effort to evaluate how ready Canadian companies are to respond to the increasing needs for information, Millani has assessed the ESG disclosures of all 228 constituents of the S&P/TSX Composite<sup>3</sup>.

Standout sectors have been identified and the use of global reporting standards and frameworks such as GRI, SASB and TCFD have been analyzed. This year, we expanded our research to capture data on how many companies are disclosing information on issues like water scarcity and climate change, including Scope 3 data and climate scenario analysis. This kind of ESG information is in high demand from investors, as shown by BlackRock’s new focus on water risk<sup>4</sup>, and the fact that 450 investors (managing USD \$40 trillion in AUM) are signatories to Climate Action 100+, “an investor initiative to ensure the world’s largest corporate greenhouse gas emitters take necessary action on climate change.”<sup>5</sup>

In 2019, the Canadian Business Corporations Act (CBCA) was revised and now requires Canadian corporations to report on the level of diversity at the senior management and executive levels, beyond gender diversity.<sup>6</sup> To get a pulse of how ready Canadian organizations are to disclose this information, we also gathered data on which companies are disclosing these broader diversity figures.

## More Canadian companies are disclosing ESG information

Our research shows that as of August 31, 2020, the proportion of companies on the S&P/TSX Composite Index that have released a 2019 Sustainability Report<sup>7</sup> is 58%.<sup>8</sup> This is in comparison to August last year, when 48% of companies had released a 2018 report.

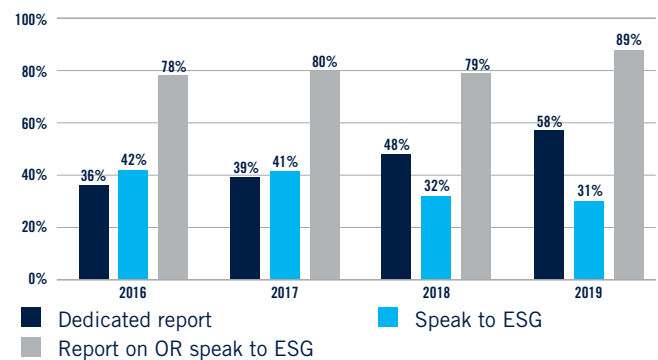
Companies do follow different reporting schedules, so some have not released their 2019 report yet. By assessing company reporting histories and schedules, it can be assumed that the number of companies on the S&P/TSX Composite Index with a 2019 Sustainability Report will rise to 66%. Millani followed the same logic in last year’s report, and predicted that 54% of companies would release a 2018 report. Upon validation at the end of the year, this number was verified at 52%.

In addition to assessing reports, we also take into consideration the number of companies who communicate their ESG issues on their website.

In 2018, the proportion of companies that did not release a report but included ESG information on their website was 32%. For 2019, this number decreased to 31%. This means that a total of 89% of companies listed on the S&P/TSX Composite are providing ESG information to the market in some form.

Figure 1

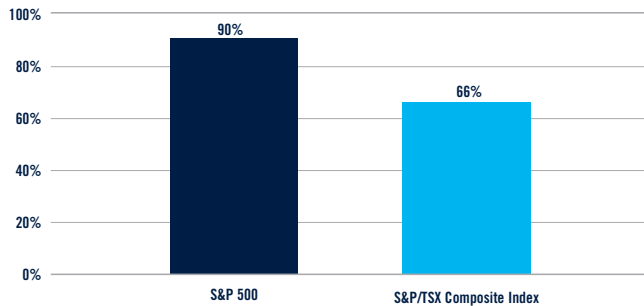
### The number of companies disclosing ESG information has been steadily rising



1. European Commission, Non-financial reporting, available at: [ec.europa.eu/info/business-economy-euro/company-reporting-and-auditing/company-reporting/non-financial-reporting\\_en](http://ec.europa.eu/info/business-economy-euro/company-reporting-and-auditing/company-reporting/non-financial-reporting_en)  
2. Capital Markets Modernization Task Force Consultation Report, July 2020  
3. 228 companies, list taken as of June 2020.  
4. Brian Deese, Philipp Hildebrand, “Troubled Waters”, BlackRock Investment Institute, July 2020  
5. Climate Action 100+, Available at <https://climateaction100.wordpress.com/>  
6. Government of Canada, Diversity disclosure for boards of directors and senior management comes into force, July 2019  
7. May be named a 2018, 2019 or 2020 report but data refers to the year 2019. Sustainability Report or equivalent, e.g. ESG, CSR, Responsibility, etc.  
8. In Millani’s 2019 research, there were 242 constituents listed on the S&P/TSX Composite. For Millani’s 2020 research, there were 228 constituents. Information taken as of June 2020.

Figure 2

90% of issuers on the S&P 500 released a 2019 Sustainability Report, compared to an estimated figure of 66% for the S&P/TSX Composite Index



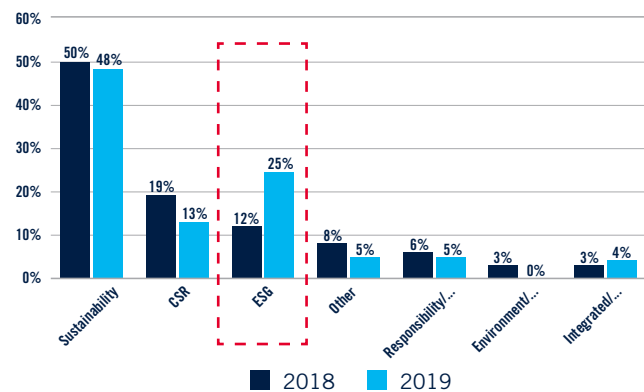
Although this move is encouraging, a comparison of the equivalent figures for the S&P 500 shows that Canadian companies are still behind their American counterparts. 90% of issuers on the S&P 500 released a 2019 Sustainability Report<sup>9</sup>, compared to an estimated figure of 66% for the S&P/TSX Composite Index. In a time of increasing capital constraints and pressure to demonstrate resilience in a transitioning economy, the question must be asked whether Canadian companies are missing an opportunity to improve their access to capital.

### It's all in the name!

There are several variations to the names of the reports Millani assesses. Historically, these have often been named "Corporate Social Responsibility" reports but this trend is declining. In

Figure 3

More ESG reports are being released



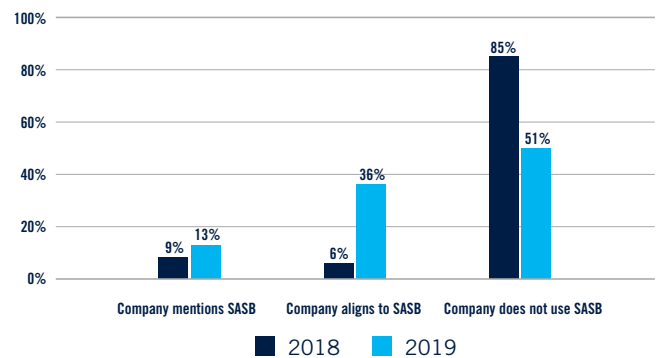
2019, approximately half of the S&P/TSX Composite Index used "Sustainability" in their report names. The biggest change we're seeing is the increase in companies naming their reports ESG Reports. In 2019, 25% of companies named their reports an "ESG Report", double the number from the year before. We believe this is signalling a growing trend towards investor-driven disclosure, showing that companies are becoming aware of the desire to see more financially material ESG information, rather than information that has historically been categorized as corporate responsibility initiatives.

### The battle of the frameworks

64% of companies that reported in 2019 used the Global Reporting Initiative (GRI) to guide their report. This is a slight increase from the previous year (59%). In stark contrast, the use of the Sustainability Accounting Standards Board (SASB) framework jumped significantly. These standards are based on identifying material ESG issues across different sectors and were developed with investors in mind. In 2019, 36% of companies used the framework to aid their disclosures, while a further 13% mentioned SASB in some way, for example, recognizing the value of the standards, or making a commitment to align to the standards in coming years. This is in comparison to 6% of companies aligning to the SASB standards in 2018, and 9% mentioning them. Given Blackrock's support for SASB's framework<sup>10</sup>, we believe this trend may continue and that the majority of the constituents of the S&P/TSX Composite Index could be using SASB to help inform and articulate their material ESG issues in the coming years.

Figure 4

The proportion of constituents using SASB has increased significantly



9. 90% of S&P 500 Index Companies Publish Sustainability/Responsibility Report in 2019, July 16, 2020, Governance & Accountability Institute, Inc.

10. Larry Fink's Letter to CEOs 2020, A Fundamental Reshaping of Finance, BlackRock

This may be an indication that companies are seeing value in using investor-driven standards to help them access capital through their sustainability disclosures, and are making heightened efforts to communicate their material ESG issues.

## Increased focus on climate

There is growing acknowledgement by many businesses that the global economy is transitioning to a lower-carbon economy. With growth in consumer pressure and increasing demands from investors, companies are increasingly disclosing the actions they're taking to assess their viability in a changing climate.

### **Task Force on Climate-Related Financial Disclosures (TCFD)**

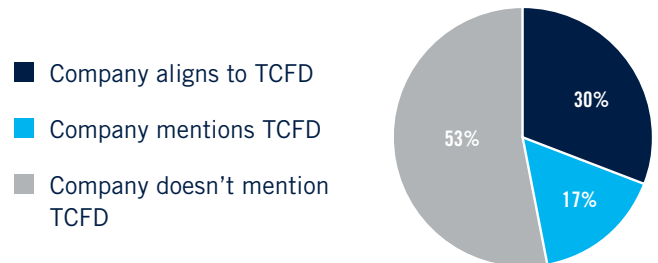
In 2019, 30% of companies aligned their disclosures to the recommendations made by the Task Force on Climate-Related Financial Disclosure (TCFD). A further 17% mention the TCFD, for example acknowledging the value of it or by committing to align to the recommendations in the coming years. These recommendations encourage companies to disclose how they are managing risks and opportunities related to climate change, in terms of Governance, Strategy, Risk Management, and Metrics & Targets.

***In 2019, 30% of companies aligned their disclosures to the recommendations made by the Task Force on Climate-Related Financial Disclosure (TCFD).***

The significant proportion of companies already looking to the TCFD recommendations, or making the commitment to do so, shows that companies are acknowledging the potential physical and transitional risks of climate change. However, it also allows them to identify and communicate opportunities that may come from operating in a changing climate, such as increased efficiencies and resilience.

Figure 5

**47% of constituents acknowledge TCFD, or actively use the recommendations in their disclosures**



One of the recommendations from the TCFD is to disclose Scope 3 emissions. 36% of the companies that released a 2019 report disclosed their Scope 3 emissions, and of these, 4% set Scope 3 targets. Those that set Scope 3 targets are from the *Financials*, *Food & Beverage* and *Infrastructure* sectors. Given the complexity and uncertainty surrounding Scope 3 emissions, the ability to set a target on such data may be a sign of higher levels of maturity from these sectors in terms of their ESG journey. It is also interesting to note that these leaders are not only from consumer-facing industries, which may have been an initial assumption considering the growing pressure from consumers.

Another TCFD recommendation is to carry out climate scenario analysis, to determine the impacts of climate change on the business. 12% of the companies that published a 2019 report are disclosing scenario analysis information, the majority of which are in the *Financials* sector, illustrating the strong commitment coming from the financial community for the TCFD. The others are in either the *Extractive & Minerals Processing* or *Infrastructure* sectors.

***36% of the companies that released a 2019 report disclosed their Scope 3 emissions, and a further 4% set Scope 3 targets.***

11. Analysis performed according to SICS sector breakdown (Sustainability Accounting Standards Board's Sustainable Industry Classification System)

## The leading sectors

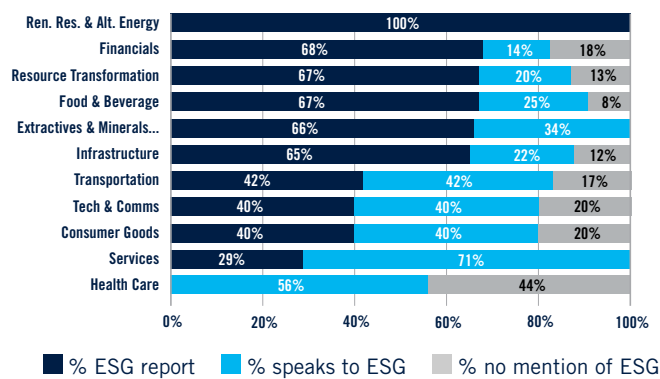
In terms of sector performance<sup>11</sup>, there are some leaders: The *Extractives & Minerals Processing* and *Services* sectors. They are both sectors with a high number of constituents and 100% of the companies within these sectors either release a dedicated report or talk to ESG topics on their websites. The *Infrastructure* and *Resource Transformation* sectors are not far behind, with 87% of both sectors releasing a report or speaking to ESG. Health Care is the sector with the least disclosure, with 44% of companies failing to share any ESG information at all. Of those in the Health Care sector that do share ESG information, none have a dedicated report.

**100%** of the companies within the *Extractives & Minerals Processing* and *Services* sectors either release a dedicated report or talk to ESG topics on their websites.

The *Renewable Resources & Alternative Energy* sector stands out, with 100% of the constituents publishing a dedicated report. However, upon analysis, there is only one company in the sector in the Composite.

Figure 6

### Some sectors are leading

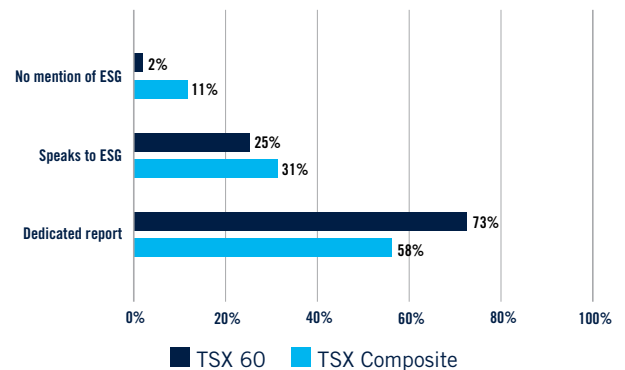


## The S&P/ TSX 60 leads by example

The 60 largest companies in Canada are well aware of the need to disclose sustainability information. While 58% of the companies listed on the S&P/TSX Composite Index released a Sustainability Report in 2019 (as of August 31, 2020), this figure is much higher for those listed on the S&P/TSX 60, at 73%. For the most part, even those that did not release a dedicated report made sure to disclose information on their website. 98% of the S&P/TSX 60 Index either released a report or disclosed sustainability information online, compared to 87% of the S&P/TSX Composite Index.

Figure 7

### The TSX 60 leads by example



The top 60 are also ahead in their use of reporting frameworks, with 55% of reporting companies using SASB (compared to 36% of reporting companies from the S&P/TSX Composite Index). Those using SASB often provide the metrics suggested by SASB for their material issues or provide a SASB index within the report.

The TMX has recently launched a suite of six S&P/TSX ESG indices in order to enable clients to “gain exposure to ESG investments and manage risks associated with ESG.”<sup>12</sup> On the TSX Composite ESG index, 77% released a dedicated report, with a further 23% speaking to ESG on their website, meaning a total of 100% of the companies on the newly launched index speak to ESG. For companies who are interested in gaining access to capital from passive investment funds, this may be an indication that increased resources should be allocated to disclosing quality ESG information, especially considering the significant rise of funds flowing into ESG ETF's in 2020.<sup>13</sup>

12. TMX Info Services, July 2020

13. Ruth Saldanha, “Canadian ESG Funds Grew Faster”, Morningstar, 7 May 2020

## What's new?

As Canadian companies improve their ESG disclosures due to the increasing pressures from stakeholders and rising standards from other regions, Millani has noted some new trends.

### **Diversity & inclusion**

Considering the new requirements from the CBCA<sup>14</sup>, and the Black Lives Matter movement, Millani captured information on which companies are disclosing diversity figures that go further than gender. Of the companies that released a 2019 report, 89% are disclosing their gender metrics, while 18% have disclosed metrics on some or all of the following: number of employees that have a disability, are of a visible minority, are Indigenous Peoples.

**89% of the companies that released a report in 2019, are disclosing their gender metrics.**

### **Water**

45% of companies with a 2019 report included a dedicated section on water, disclosing how they are managing the resource or what it is used for, with some providing metrics on water withdrawal and recycling rates. Of this 45%, the majority are resource-based companies. Looking to SASB as a reference, SASB has signalled that companies in all sectors, except *Financials, Health Care and Transportation*, should be disclosing on water.

**45% of companies included a dedicated section on water in their 2019 reports.**

### **Purpose**

As noted in our report from May "Is COVID-19 Affecting ESG Integration?", the COVID-19 pandemic has highlighted that investors are increasingly asking what the social purpose of corporations is. As such, we wanted to assess how many companies are focusing on this topic. 32% of 2019 reports mentioned purpose, with 12% providing a purpose-driven report. Although it is difficult to objectively say what makes a

report "purpose-driven", there are some signals. For example, the company's purpose is spoken about in the introductory CEO letter and appears to truly drive the business model or strategy, the UN SDGs are used to effectively structure the report, metrics demonstrate a desire to make measurable impact in society, and the report shines a light on how the company is responding to the needs of their many stakeholders.

**32% of 2019 reports mentioned purpose, with 12% providing a purpose-driven report.**

## Implications

Although the majority of constituents on the S&P/TSX Composite are disclosing ESG information in some form, the results that we have presented in this report, together with our previous study, "Is COVID-19 Affecting ESG Integration?", show that it's more important than ever before to get the reporting right, as the bar is rising. The process is an investment of time and resources, but access and cost of capital depends on disclosing reliable ESG data to financial stakeholders.

In an uncertain economic climate, articulating your material ESG issues, and disclosing on the strategy and management around these issues, is one area that it would be risky to cut back on.

## Report methodology

Sustainability disclosures from 2019 from all 228 companies on the S&P/TSX Composite Index (as of June 2020) were assessed by Millani team members during the months of July and August 2020. For 2019 sustainability communications, the study includes reports published up until August 31, 2020. All companies were categorized according to Sustainability Industry Classification System (SICS). For each company, Millani assessed disclosures relating to environmental, social and governance issues in publicly available reports and / or corporate websites. Communications relating to sustainability and ESG were assessed to establish how many years the company has been reporting on sustainability, which (if any) frameworks were used to develop the report, and how well they communicated these issues.

14. Government of Canada, Diversity disclosure for boards of directors and senior management comes into force, July 2019



## About Millani

Millani provides advisory services on ESG integration to both investors and companies. For the past 12 years, Millani has become the partner of choice for institutional investors. By providing advisory services on 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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Visit our website: [www.millani.ca](http://www.millani.ca)