



# Millani's 5<sup>th</sup> Annual ESG Disclosure Study: A Canadian Perspective

A study of the S&P/TSX Composite Index Constituents  
and their 2020 ESG disclosures

September 9<sup>th</sup>, 2021

Over the past five 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 ESG information, Millani has gathered data on Canadian issuers' use 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 climate change, diversity, and Indigenous relations.

## ESG disclosure: A Canadian perspective

There is growing pressure on corporate issuers from multiple stakeholder groups to disclose reliable and comparable environmental, social and governance (ESG) information. This demand for standardized information recently culminated in the creation of the Value Reporting Foundation in June 2021, a merger of the Sustainability Accounting Standards Board (SASB) and the International Integrated Reporting Council (IIRC).<sup>1</sup> This growing demand is further exemplified through some jurisdictions' shifts towards mandating climate disclosures aligned to the TCFD (Task Force on Climate-related Disclosures) for companies and investors.<sup>2</sup>

Millani has assessed ESG and sustainability disclosures in Canada for the past five years, gathering data on ESG information provided by Canadian public issuers, and delivering insights on the observed developments and trends. Millani continues this legacy and, in 2021, assessed the ESG disclosures of all 230 corporate issuers listed on the S&P/TSX Composite Index.<sup>3</sup> As the only organization producing this type of research specific to Canada, this report provides value and insight for the global ESG disclosure landscape.

Each constituent's ESG disclosures were assessed, specifically on the use of global reporting standards and frameworks such as the Global Reporting Initiative (GRI), SASB and TCFD, and whether climate-specific disclosures were included, such as Scope 3 greenhouse gas emissions and climate scenario analysis. Additional ESG topics were included in the scope of our study to reflect evolving issues for Canadian companies and investors, including Indigenous relations and biodiversity.

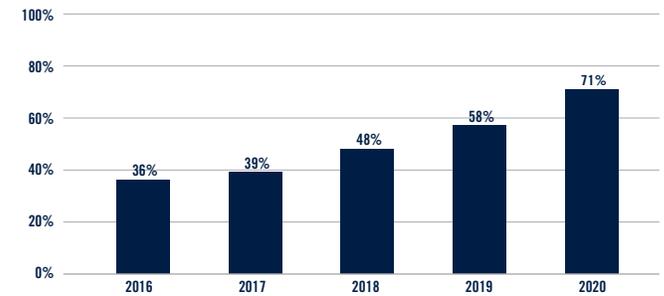
## ESG disclosure over the years

Our research found that as of August 31, 2021, 71% of companies listed on the S&P/TSX Composite Index released a report dedicated to the disclosure of ESG topics, compared to 58% in the previous year.<sup>4</sup> *Figure 1* shows the percentage of Canadian corporate issuers with an ESG, sustainability, or similar report over the past five years.

Companies follow different reporting schedules, so some issuers that disclose ESG information may not yet have released their 2020 ESG report at the time of analysis.

Figure 1

The percentage of Canadian corporate issuers with dedicated ESG reports is growing



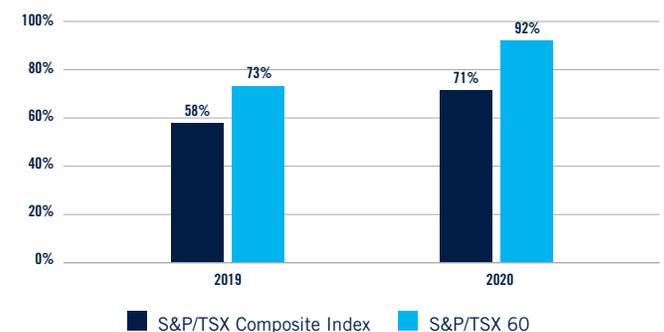
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### The S&P/TSX 60 leads by example

Millani observed that the proportion of corporate issuers who issued a dedicated ESG report was higher amongst the S&P/TSX60 (the 60 largest corporations by market capitalization in the S&P/TSX Composite Index). *Figure 2* demonstrates that the constituents of the TSX 60 are almost all publishing an ESG report, with 92% doing so. In November 2020, Canada's eight largest pension funds released a joint statement, calling

Figure 2

Corporate issuers with dedicated reports

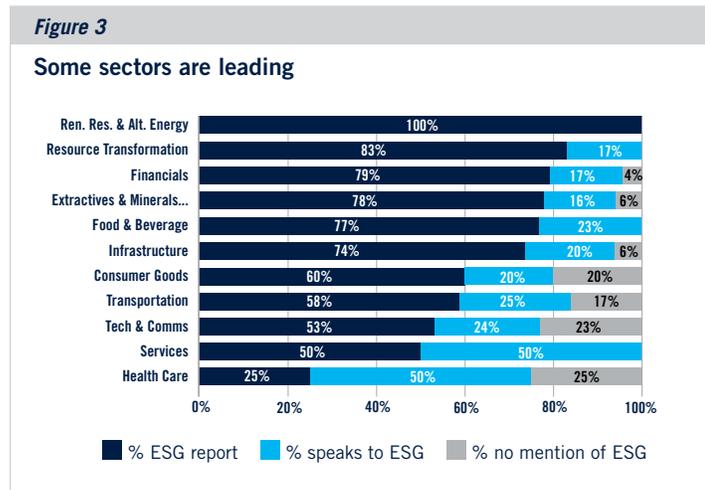


1. IIRC and SASB announce intent to merge in major step towards simplifying the corporate reporting system, IIRC and SASB, November 25, 2020.  
 2. Interim Report of the UK's Joint Government-Regulator TCFD Taskforce, Her Majesty Treasury, November 9, 2020.  
 3. S&P/TSX Constituents, TMX, July 28, 2021.  
 4. We considered a report released in 2020 or using 2020 data to meet this criteria

for companies to disclose their material ESG information in a transparent and standardized manner.<sup>5</sup> If the TSX 60 are extracted, 64% of the remaining 170 corporate issuers on the Index have a dedicated ESG report. This suggests that TSX 60 corporate issuers remain more responsive to market demand than constituents with a smaller market capitalization.

## Matters of sector

Millani assessed the level of ESG disclosure by sector<sup>6</sup> and found that some sectors are vastly ahead of others. Millani also considered companies that do not publish a report, but still report ESG information through their website, seen as “% speaks to ESG” in *Figure 3*.

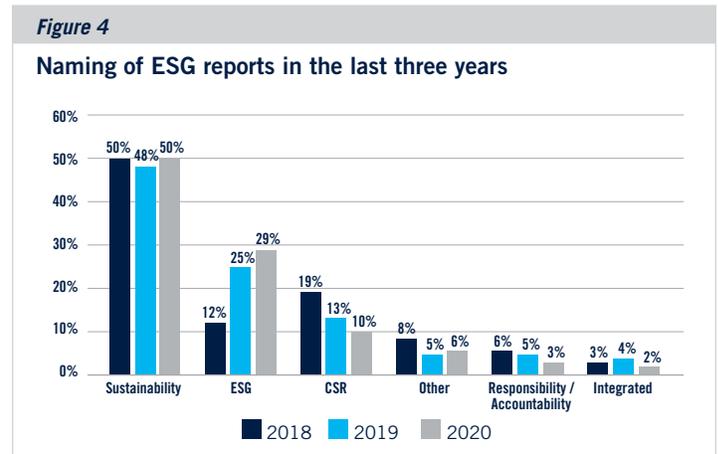


Seven of the eleven sectors seen in *Figure 3* have at least 90% of their issuers disclosing on ESG topics either through a report or website, an increase from last year's study where only four of the sectors met this benchmark.

*Figure 3* shows that only one sector has less than half of its respective constituents producing a dedicated ESG report, whereas in last year's study, five sectors had less than 50% of constituents with an ESG report. ESG reporting has increased the most in the Health Care sector, which had zero corporate issuers publishing a dedicated ESG report in 2019. Overall, all sectors have increased levels of ESG disclosure since Millani's 2019 study, except for the Renewable Resources sector, which remains at 100% with only one issuer in the sector.

## Name that report!

Some corporate issuers have been producing reports that discuss ESG topics for as long as two decades, but the naming of reports has varied over time. Historically, these may have been called “Corporate Social Responsibility” reports. Recently, there has been a shift towards “ESG” and “Sustainability” reports. *Figure 4* demonstrates the changes in report nomenclature over the last three years.



“Sustainability” reports remain relatively consistent in use by corporate issuers; however, a growing trend is towards “ESG” reports, with a 142% increase in adoption in the last two years. Millani's *ESG Sentiment Study of Canadian Institutional Investors*, published in February 2021, found that 75% of investors believe that mandatory ESG disclosures will start to be enforced.<sup>7</sup> This rising demand for ESG information may explain the shift towards ESG reports, which focus more on financial materiality than Sustainability or CSR reports. In all other sections of this paper, the term “ESG report” refers to all reports regardless of name.

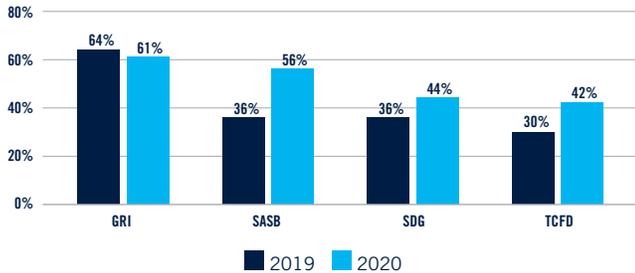
## Framework evolution

Millani paid close attention to the frameworks adopted by the constituents of the S&P/TSX Composite Index. *Figure 5* shows that alignment to SASB, TCFD and UN Sustainable Development Goals (SDG) reporting frameworks has increased, since 2019, whereas alignment to the GRI decreased. The biggest changes were in the use of the SASB and TCFD frameworks, with a 56% and 40% increase respectively.

5. Maple 8 CEO Statement, BCI, November 24, 2020.  
6. As allocated by SICS sector, Sustainability Accounting Standards Board.  
7. *ESG Sentiment Study of Canadian Institutional Investors*, Millani, February 15, 2021.

Figure 5

Frameworks used in ESG reporting are changing



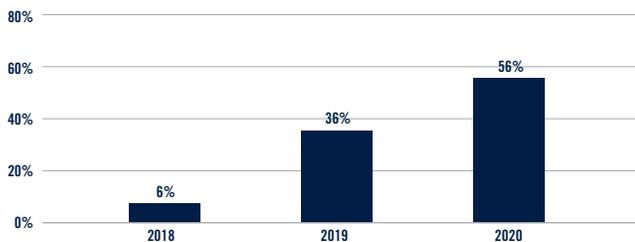
Alignment to SASB by corporate issuers has dramatically changed in the last three years, as shown in Figure 6. In 2020, 56% of ESG reports aligned themselves to SASB. Millani found that a further 11% mentioned SASB, which includes, making a commitment to align to SASB in coming years or disclosing that the standard served as a guideline in their ESG report.

This increase in adoption of the SASB and TCFD frameworks is in line with the announcement by Canada's eight largest pension funds, which requested that companies disclose ESG information in line with these two frameworks.<sup>8</sup> However, 44% and 58% of ESG reports do not currently align to SASB and the TCFD respectively, leaving room for continued improvements by corporate issuers.

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Figure 6

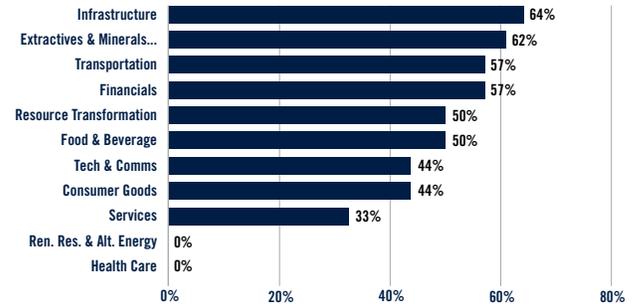
SASB alignment has dramatically increased



The alignment to SASB was further assessed by sector. Figure 7 shows the sector breakdown, and clearly demonstrates that some sectors are leading the way.

Figure 7

Sectors with an ESG report that aligns to SASB



The Renewable Resources and Health Care sectors stand out, with none of the constituents aligning their ESG reports to SASB. This suggests room for further adoption of the standards by these sectors, especially considering SASB's focus on financial materiality, and the increased investor interest in these sectors, given the context of COVID-19 and the transition to a lower-carbon economy.

Millani also observed that 60% of corporations with a 2020 ESG report included a materiality assessment, a 20% increase from the previous year.

Climate disclosures

Millani's *ESG Sentiment Study of Canadian Institutional Investors* (February 2021) showed that 81% of investors expected climate change to be in the top three ESG issues for 2021, highlighting the importance of reliable and transparent climate disclosure.<sup>9</sup> Currently, 42% of S&P/TSX Composite Index constituents with a 2020 ESG report align their climate disclosures to the TCFD.<sup>10</sup> Figure 8 demonstrates that an additional 21% "mention" the TCFD. A "mention" includes a commitment to align to the TCFD in subsequent reports, or a reference to the TCFD as a guide for their disclosure, which represents 11% and 10% of total reports respectively.

8. *Maple 8 CEO Statement*, BCI, November 24, 2020.

9. *ESG Sentiment Study of Canadian Institutional Investors*, Millani, February 15, 2021.

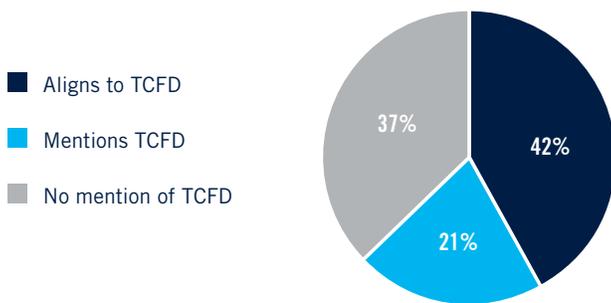
10. Millani considered a corporation to be aligned to the TCFD recommendations if their ESG report disclosed on the four main pillars of the TCFD framework: Governance, Strategy, Risk Management and Metrics and Targets.

Currently, **42%** of S&P/TSX Composite Index constituents with a 2020 ESG report align their climate disclosures to the TCFD.

This shows a 35% increase in TCFD alignment since *Millani's TCFD Disclosure Study: A Canadian Perspective*, published in June 2021.<sup>11</sup>

Figure 8

63% of ESG reports acknowledge or align to the TCFD



Important aspects of climate change for investors, as determined through Millani's *Semi-Annual Sentiment Study of Canadian Institutional Investors: Climate Change & TCFD-Aligned Reporting*, were also evaluated.<sup>12</sup> Scope 3 emissions were disclosed in 45% of 2020 ESG reports. This represents a sizeable increase from 2019, where only 36% of ESG reports disclosed this type of data. Of these reports disclosing Scope 3 emissions, 4% set Scope 3 emission reduction targets. 13% of reports disclosed climate scenario analysis information, a slight increase from last year's 12%.

Climate change disclosures are still evolving and increasingly finding their way into companies' ESG reports and other financial disclosures. Millani also observed that 81% of the S&P/TSX Composite Index mentions climate change in at least one of their regulatory filings.

## Disclosures in recent years

Since last year's study, Millani has assessed the disclosure on water and diversity & inclusion of the S&P/TSX Composite Index.

### Water

In 2019, 45% of ESG reports disclosed on water.<sup>13</sup> In 2020, this number grew to 60%. This 33% increase in water disclosure suggests corporate issuers are increasingly paying attention to their water consumption and wastewater management. This is an important topic for issuers to consider, as investors are paying closer attention.

### Diversity & Inclusion

Gender diversity is one of the first metrics Millani analyzed in issuers' ESG reports. The results are at their highest so far, with 91% of ESG reports disclosing their gender diversity, 2% higher than last year. What's more, Canada Business Corporations Act (CBCA) requirements aim to capture diversity beyond gender: visible minorities, persons with disabilities and Indigenous Peoples representation. The new CBCA diversity requirements took effect on January 1<sup>st</sup>, 2020.<sup>14</sup> Millani assessed ESG reports to determine how ready Canadian corporations are to adhere to the CBCA requirements and found that 37% of corporations are reporting on diversity beyond gender representation, a 106% increase from 2019.<sup>15</sup> In Aug 2021, the U.S Securities and Exchange Commission (SEC) approved the NASDAQ's proposal to require listed issuers to meet gender and race targets for Boards of Directors.<sup>16</sup> This obligation will force companies to rethink their diversity strategies and suggests a significant increase in broader diversity disclosures in the future.

11. Millani's *TCFD Disclosure Study: A Canadian Perspective*, Millani, June 14, 2021.

12. *Semi-Annual Sentiment Study of Canadian Institutional Investors: Climate Change & TCFD-Aligned Reporting*, Millani, July 7, 2021.

13. *Millani's Annual ESG Disclosure Study: A Canadian Perspective*, Millani, September 9, 2020.

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

15. To note, Millani did not assess whether corporate issuers are in compliance with this regulation but sought to determine the percentage of companies disclosing beyond gender diversity.

16. *SEC approves Nasdaq's plan to boost diversity on corporate boards*, CNBC, August 6, 2021.

## What's new?

Each year, Millani analyzes the market to determine what the most significant ESG integration trends may be for the year ahead. In Millani's MarketTrends 2021, biodiversity and Indigenous relations were identified as key emerging topics for Canadian issuers to consider for disclosure.<sup>17</sup>

### **Biodiversity**

In June 2021, the Task Force on Nature-related Financial Disclosures (TNFD) made strides by proposing recommendations for its scope and work plan.<sup>18</sup> The TNFD, based on the TCFD, will provide a framework by 2023 for corporate issuers and investors to address risks and opportunities around biodiversity.<sup>19</sup> Of the issuers with a 2020 ESG report, 38% discuss biodiversity. This topic will continue to be monitored as investors view it as a critical risk to companies and stands as one of the biggest ESG themes in 2021.<sup>20</sup> The question remains whether the adoption speed of the TNFD will match that of the TCFD's.

### **Indigenous Relations**

Indigenous Peoples are an integral part of Canadian society and its economy. Maintaining strong relations with Indigenous groups is important, and can have significant impacts for corporate issuers. This was demonstrated by the rail blockades across Canada in February 2020, which were viewed to be a result of poor relationship management with Indigenous Peoples.<sup>21</sup> 40% of the S&P/TSX Composite Index constituents with an ESG report disclose on their approach and management of Indigenous relations.

The passing of Bill C-15 United Nations Declaration on the Rights of Indigenous Peoples (UNDRIP) by the Canadian Senate in June 2021 will possibly deepen the focus on Indigenous relations in Canada, and increase potential for partnerships in economic development.<sup>22</sup> These market developments, as well as increased focus on employee and board diversity, may lead to further engagement and disclosures on Indigenous relations in the coming years.

## Implications

Millani's MarketTrends 2021 in January suggested that mandatory ESG reporting was on the horizon. Since then, there have been many regulatory changes that indicate this is happening faster than many had expected. But are issuers ready? And beyond regulation, are investors getting the disclosures they need?

The world of ESG reporting is undergoing serious changes. New frameworks and standards boards are being created to increase ESG reporting comparability and simplicity. Verification of data is a likely next step as the development of ESG reporting becomes more formalized. Furthermore, knowledge and understanding of ESG topics and metrics will be important for issuers considering their long-term strategies, such as merger and acquisition decisions.

Companies already disclosing their ESG metrics, methodology, governance, and targets are in a far better position to align themselves with their financial stakeholders' needs. Given the increasing competitiveness for capital, the anticipated changes in reporting regulations, as well as changing investor expectations, issuers must anticipate that they will need to invest in the development and delivery of ESG reporting, for some time to come.

## Report methodology

This study incorporated all reports released in 2020 up to the most recent reports released in 2021 addressing 2020 data. The list of the 230 S&P/TSX Composite Index constituents was extracted on July 28<sup>th</sup>, 2021, including market capitalization value. The companies included in the TSX 60 are the 60 largest companies by market capitalization. Our analysis took place in July and August 2021, therefore the analysis is based on all ESG reports released up until August 31<sup>st</sup>, 2021. 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.

17. Millani's 2021 MarketTrends, Millani, February 23, 2021.

18. Taskforce on Nature-Related Financial Disclosures (TNFD) launched, UNEPFI, June 2021.

19. Why a Taskforce is needed, TNFD, As of August 2021.

20. Biodiversity, Supply Chain Rank Among Biggest ESG Themes in 2021, Bloomberg, January 8, 2021.

21. The Wet'suwet'en conflict disrupting Canada's rail system, BBC, February 20, 2020.

22. Joint Statement by Minister Lametti and Minister Bennett on the Senate Passing Bill C-15, An Act Respecting the United Nations Declaration on the Rights of Indigenous Peoples, Government of Canada Department of Justice, June 16, 2021.



## About Millani

Millani provides advisory services on ESG integration to both investors and companies. For the past 13 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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