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White paper  
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Millani



## ESG Disclosure: A Canadian Perspective

### A study of the S&P/TSX Composite Index and their sustainability communications in 2018

As investors demand higher quality ESG information, how are Canadian companies performing?

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## Millani's research

Millani has been assessing corporate sustainability communications in Canada for several years. Given the increased demand for ESG information from investors, we conducted research on corporate disclosures during the periods of 2016, 2017, and 2018.

Our research shows that as of August 30, 2019, the proportion of companies on the S&P/TSX Composite Index that released a 2018 Sustainability Report is **48%**.

The proportion of companies on the S&P/TSX Composite Index that released a 2017 Sustainability Report is **45%**.

Some companies have not yet released their 2018 report but by assessing company reporting histories and schedules, it can be safely assumed that the number of companies on the S&P/TSX Composite Index with a 2018 Sustainability Report will rise to **54%**.

There is also increased conversation in the investor community about the quality of information that companies are reporting. To respond to this, we captured data on the number of companies using the GRI and SASB frameworks to shape their disclosures, and how many companies are aligning with the TCFD recommendations and the UN SDGs. We also gathered information on trends of report names (e.g. ESG Report vs. CSR Report), as well as identifying which sectors are producing the best reports.

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**45% → 54%** (est.)

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The proportion of companies on the S&P/TSX Composite Index that released a report dedicated to sustainability went from 45% in 2017, to an estimated 54% in 2018.

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## The way Canadian companies are sharing sustainability information is changing

The proportion of companies on the S&P/TSX Composite Index disclosing information relating to environmental, social and governance (ESG) matters has stayed consistent over the past several years.

However, the way in which this information is communicated to stakeholders has drastically changed. Rather than simply relying on a Corporate Responsibility section on a website, companies are recognizing the importance of releasing a report dedicated to sustainability.

To put this into context, 45% of the S&P/TSX Composite Index released a report in 2017, with this number rising to 54% in 2018 if we consider companies that we anticipate will be releasing their report later in 2019. Given the desire for more timely information from investors, it may be beneficial for companies to consider moving report release dates to earlier in the year.

In 2017, the proportion of companies that did not release a report but included sustainability information on their website was 41%, while in 2018, this number decreased to 32%. This indicates that companies are shifting away from simply sharing sustainability-related information online, to publishing a dedicated report.

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. 86% of issuers on the S&P 500 released a Sustainability Report in 2018<sup>1</sup>, compared to an estimated figure of 54% for the S&P/TSX Composite Index. At a time of rising capital constraints in Canada, and of increasing pressure to prove resilience in a transitioning economy, the question must be asked whether Canadian companies are doing enough.

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<sup>1</sup> Governance & Accountability Institute, Inc. 2018 Research ([www.ga-institute.com](http://www.ga-institute.com))

## Sustainability Reports remain the standard

Despite the growing appetite from investors for material ESG information, companies still tend to release a more general report under the umbrella of Sustainability or Corporate Responsibility.

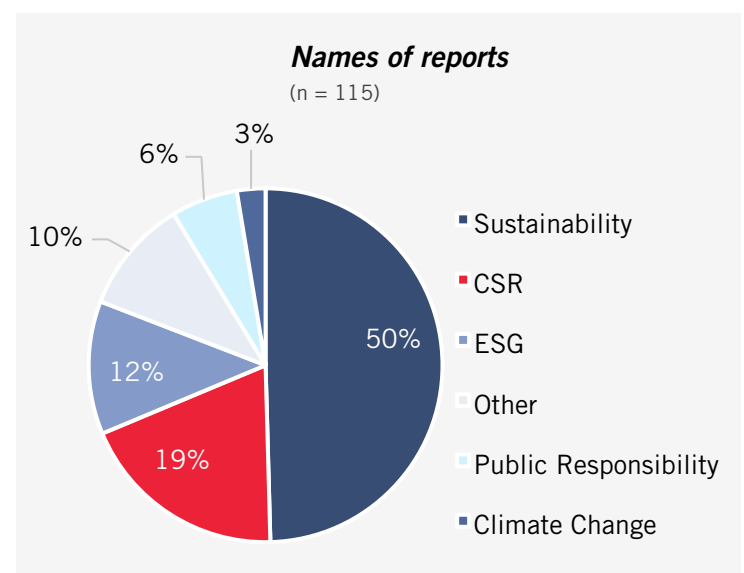
Of the 242 companies in the S&P/TSX Composite Index (as of May 2019), 115 companies released 2018 reports. 50% named them a “Sustainability Report”, while a further 19% released a report under the “Corporate Social Responsibility” (CSR) heading (Corporate Responsibility, CSR Scorecard, CSR Statement etc.). Several companies chose to base their communications around the Public Responsibility theme, while a further few dedicated their report to issues related to climate change and the environment.

## More ESG Reports are being released

12% of companies published an “ESG Report” in 2018. This represents 14 companies; half of which brought out their inaugural report in 2018.

This signals that companies are becoming aware of readers’ desires to see more material ESG information, rather than information that has traditionally been categorized as corporate responsibility initiatives.

However, an assessment of these 14 reports shows that these companies do not veer too far from the content of a Sustainability or CSR Report. Many are missing the opportunity to provide performance data, targets, and align to standardized reporting frameworks. This trend of new reporters releasing “ESG Reports” is a great step forward but corporates still have work to do to ensure that they are disclosing material information that will be useful for investors, along with other stakeholders.

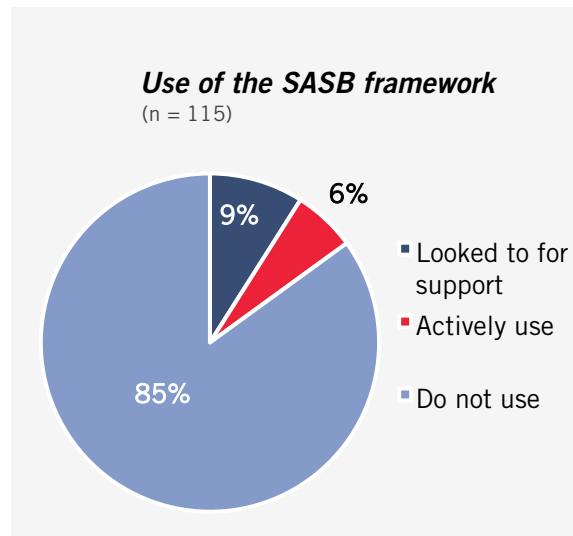
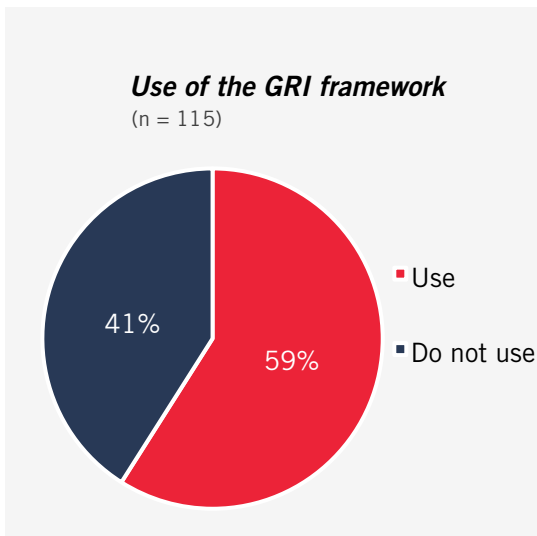


## Companies are realizing the value of standardized frameworks

59% of companies that reported in 2018 used the Global Reporting Initiative (GRI) to guide their report.

15% of companies looked to the relatively new Sustainability Accounting Standards Board (SASB) framework to inform which material sustainability issues they should be covering, while 6% actively used the SASB guidelines as a reporting mechanism (detailing which information relates to which section of the SASB framework).

This shows that companies are seeing value in aligning to external, standardized reporting frameworks. This will come as a relief particularly to investors, who will benefit from seeing common language used across the board. Use of these frameworks may be seen as proof of the influence of investor-driven demand for higher quality disclosures. To continue seeing these positive changes, we believe investors will need to continue expressing their desires to see more and more ESG information.



## There is growing acknowledgement from businesses that they must do better

Whether this comes from consumer pressure, or from growing agreement that purposeful business is good business, companies are stepping up their commitments to do better for people and for the environment.

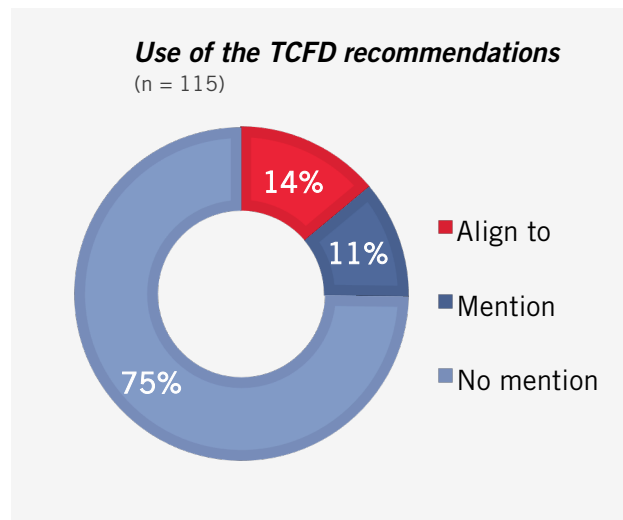
### Task Force on Climate-Related Financial Disclosures (TCFD)

In 2018, 25% of companies indicated their support for the TCFD recommendations in their sustainability communications. These recommendations encourage companies to share how they are managing risks and opportunities related to climate change, in terms of Governance, Strategy, Risk Management, and Metrics & Targets.

14% of companies engaged with the recommendations at this deeper level, to shape how they reported on risks and opportunities related to climate change, with some carrying out scenario analyses for how they will operate in a climate of 1.5 or 2 degrees warmer.

The commitment to align with the TCFD recommendations shows that companies are acknowledging climate change may represent

risks, but it also allows them to identify and communicate opportunities that may come from operating in a changing climate, such as increased efficiencies and more resilient business models.



### Sustainable Development Goals (SDGs)

35% of companies mention the SDGs in their 2018 sustainability communications, and almost a third (28%) use them in a meaningful way, aligning strategy, targets or specific goals to one or more SDGs. The engagement with the SDGs reveals effort from companies across industries to create value that goes further than finances.

### Renewable Resources & Services come out on top

In terms of sectors, there are some clear leaders. Over 60% of the following sectors released a dedicated Sustainability Report in 2018: Services, Renewable Resources & Alternative Energy, Financials.

In the S&P/TSX Composite Index, the Services sector covers companies in Leisure, Professional Services and Casinos, while the Renewable Resources & Alternative Energy sector covers only companies operating in forestry. Financials is the biggest sector of the three, covering Insurers, Asset Managers, and Commercial Banks.

As can be seen from the data, the Services sector leads ahead in terms of companies either releasing a report or disclosing information online.

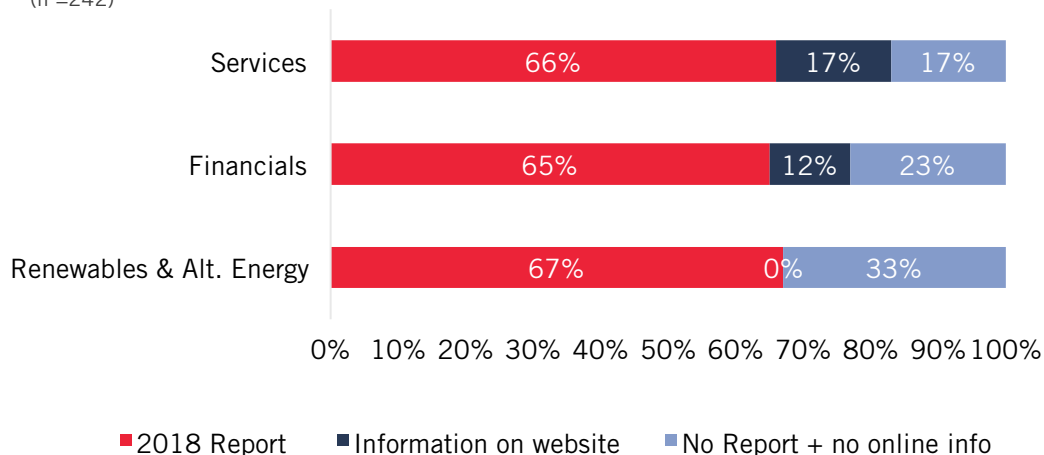
### The S&P/TSX 60 Index leads by example

The 60 largest companies in Canada are well aware of the need to disclose sustainability information. While 48% of the S&P/TSX Composite Index released a Sustainability Report in 2018 (as of August 30, 2019), more than two-thirds (67%) of the S&P/TSX 60 Index did. Even those that did not release a dedicated report made sure to disclose information on their website, meaning that 97% of the S&P/TSX 60 Index either released a report or disclosed sustainability information online, compared to 79% of the S&P/TSX Composite Index.

The top 60 are also ahead in their use of reporting frameworks, with 65% of reporting companies using the GRI (compared to 59% of reporting companies from the S&P/TSX Composite Index).

#### Sustainability communications by sector

(n =242)







## Canadian companies are enhancing ESG disclosures but there is still room to improve

The increase in the proportion of companies on the S&P/TSX Composite Index releasing sustainability information is rising. This is a positive sign of engagement and commitment from companies to satisfy stakeholders in disclosing their material sustainability information. To stay competitive with companies

in an increasingly global market, Canadian companies should consider releasing Sustainability Reports earlier in the calendar year, so investors can capture information in a timelier manner. We would also suggest that investors continue to voice their desire to see material ESG information, to encourage Canadian companies to use standardized frameworks and external guidelines for greater comparability

## Report methodology

Sustainability communications from 2016, 2017, and 2018 from all 242 companies on the S&P/TSX Composite Index (as of May 2019) were assessed by Millani team members during the months of July and August 2019. For 2018 sustainability communications, the study includes reports published up until August 30, 2019. All companies were categorized according to Sustainability Industry Classification System (SICS). For each company, Millani assessed any communications relating to environmental, social and governance issues on publicly available websites and/or reports. Where relevant, communications relating to sustainability 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.

## About Millani

Millani provides advisory services on ESG integration to both investors and companies. For the past 10 years, Millani has become the partner of choice for institutional investors, both asset owners and managers. 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. Today, Millani is also leveraging this expertise and its experience in sustainability consulting to help reporting issuers improve their ESG disclosure to investors and optimize their market value.