CPA CHARTERED PROFESSIONAL ACCOUNTANTS CANADA

Climate Change – A Role for Audit Committees

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Preface

The focus on climate change matters is continuing to grow, with increased attention being paid by a wide variety of stakeholders.

Respondents to the Global Risks Perception Survey (GRPS) rank “climate action failure” as the number one long-term threat to the world and the risk with potentially the most severe impacts over the next decade. Climate change is already manifesting rapidly in the form of droughts, fires, floods, resource scarcity and species loss, among other impacts (World Economic Forum, ***The Global Risks Report 2022***).

The Corporate Oversight and Governance Board (COGB) of Chartered Professional Accountants of Canada (CPA Canada) commissioned *Climate Change – A Role for Audit Committees* to support audit committee members in their oversight of climate change. While the entire board has a role to play in considering and overseeing management’s assessments related to climate change, the audit committee’s expertise in financial reporting makes it uniquely well-positioned to support the board in this area.

This CPA Canada publication is for audit committees of corporations of all sizes. It draws on ***Audit Committees and Effective Climate Governance, A Guide for Boards of Directors***, published by the Canada Climate Law Initiative, which provides best practice guidance, insights, tools and resources for Canadian audit committees to take a leadership role in effective climate governance.

CPA Canada would like to thank the COGB members and staff who provided input to this project. CPA Canada would also like to acknowledge Mr. Andrew MacDougall for generously sharing his time and expertise.

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Introduction

Extreme weather, warmer, drier climate conditions and changing regulations to transition to lower-carbon economies are just some of the ways people and businesses are exposed to climate change. No individual or company is immune. Fighting climate change demands a co-ordinated global response – and every organization has a role to play in that response.

It's up to corporations to analyze the risks and opportunities arising from climate change exposure and factor them into all relevant aspects of their strategies, risk assessments and decision-making. Stakeholders are already asking corporations and their boards for more robust disclosure on their exposure to climate change risks and opportunities and the potential implications for future financial performance.

Oversight of management's risk assessments as they relate to climate change requires the involvement of the entire board. The board also has a key role to play in working with executives to develop a strategic plan that aligns the corporation's business plan with Canada's commitment to move to net-zero emissions by 2050. In June 2020, Hansell LLP issued a legal opinion making it clear that climate change must be on the agenda of Canadian boards. Climate change cuts across many aspects of a corporation's operations, and boards will need to allocate responsibility for oversight of climate change matters among the board and its committees. The Hansell LLP opinion highlights that "Audit committees will need to consider how climate change risk impacts financial reporting and may also be responsible for overseeing other forms of climate change risk reporting." (Hansell LLP, 2020).

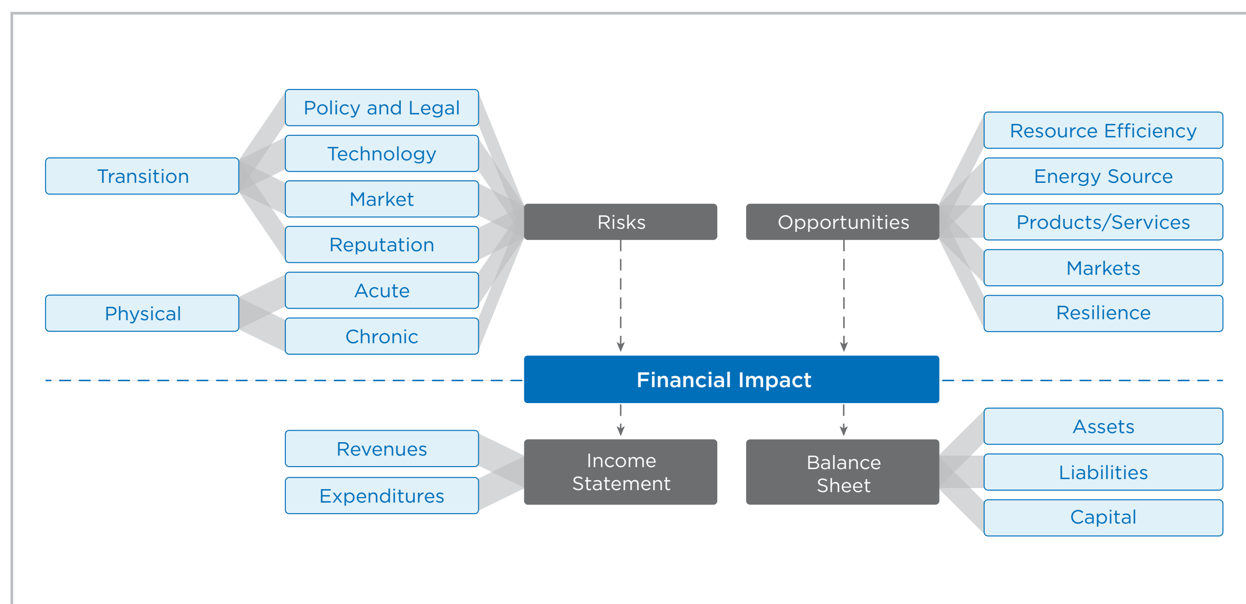
The audit committee has a unique skill set that can be leveraged to support the board as a whole in its work. In particular, the audit committee has expertise in, and is supported by, an extensive underlying infrastructure for financial reporting. For this reason, among others, the audit committee may be the board committee best positioned not only to oversee the financial reporting implications of climate change for the corporation, but also the development of the infrastructure to ensure that reported climate change metrics are relevant and accurate and that any stand-alone or voluntary climate-related reporting (e.g., in corporate sustainability reports) is consistent with the corporation's reporting for regulatory purposes.

Potential Financial Impacts of Climate Change

Companies of all sizes across a wide variety of industries are exposed to climate-related risks and opportunities. The Task Force on Climate-related Financial Disclosures (TCFD) has identified two principal categories of climate risks:

- **Transition risks** are risks arising from the transition to a low-carbon economy, including risks from new regulatory requirements, enforcement proceedings and civil litigation, the use of new technologies for reducing emissions, market pressure due to changes in demand and supply for goods and services and reputational risks as customer and community views and preferences adjust.
- **Physical risks** include acute risks such as damage to assets and disruption of operations caused by more frequent and severe extreme weather, including from wildfires, heat waves, flooding and storm surges, and chronic risks due to changes in water availability and quality, biodiversity and sea levels.

FIGURE 1: CLIMATE-RELATED RISKS, OPPORTUNITIES, AND FINANCIAL IMPACT



Derived from Figure 1 of the Recommendations of the Task Force on Climate-related Financial Disclosures (2017).

In its ***Climate Change Briefing – Questions for Directors to Ask***, CPA Canada illustrates some of the potential income statement impacts of climate change.

Climate Change – Examples of Potential Impacts	
Factors Affecting Revenue	**Factors Affecting Costs**
• changes in consumer demand for goods and services due to perceptions about the company's GHG emissions • sales or licences of innovative low-carbon technologies • speed of obtaining regulatory approvals • sales of emissions allowances or credits • proceeds from issuing green bonds • changes from climate change-driven corporate restructurings • the possibility that assets (e.g., oil and gas reserves) may no longer generate revenue • creation of new markets for low-carbon products and services	• the need to retrofit property, plant and equipment to reduce GHG emissions • research and development to design more carbon-efficient operations and processes • purchases and implementation of information systems to measure and record GHG emissions • increased or new insurance coverage • purchases of emission allowances or credits to meet regulatory requirements • penalties for failure to meet government emission targets • costs of rebuilding facilities affected by extreme weather events • investments in productive capacity that embodies new energy-efficient technologies • investments in projects to generate offset credits • financing costs related to the above expenditures

What Makes Climate Change a Unique ESG Issue

The environmental, social and governance (ESG) landscape encompasses a broad range of topics and subtopics. While climate change is part of the ESG landscape, it is unique because it is pervasive. Exposure to climate change spans almost all industries and geographies. The Sustainability Accounting Standards Board's (SASB)[1] ***Climate Risk Technical Bulletin 2021 Edition*** indicates 68 out of 77 industries are significantly affected in some way by climate risk. Not only is climate change a key environmental issue, it also has human rights and social justice implications. Racialized communities and low-income communities bear the greatest health impacts and financial risks associated with climate change (Levy & Patz, 2015). Climate change is also unique because it is a systemic risk. In 2019, for the first time, the Bank of Canada's Financial Systems Review identified climate change as a key vulnerability to the country's financial stability.

1 In 2021, the Sustainability Accounting Standards Board and the International Integrated Reporting Council merged to form the Value Reporting Foundation (VRF). On November 3, 2021, the IFRS Foundation announced the planned consolidation of the VRF with the IFRS Foundation by mid-2022.

Why Climate Change Is a Board Issue

Regulators, investors, customers and employees are driving multiple initiatives intended to bring greater transparency and enhanced reporting of climate change-related risks, mitigation strategies and opportunities.

Public Interest

Growing public awareness and concern about climate change is being driven by extreme weather; wildfires in a number of locations, including British Columbia, Alberta, California and Australia; flooding in Ontario, Alberta and the Maritimes; "sea snot" in Turkey; and notable improvements in air quality as a result of pandemic lockdowns (Pew Research Centre, 2021). This interest and greater media focus on climate issues are prompting new regulations and overcoming historic political reticence to carbon emissions regulations. Public interest is also driving investment decisions by retail investors, and beneficiaries of managed investments.

Perhaps one of the most notable outcomes of this shift in public interest is the formation by the International Financial Reporting Standards (IFRS) Foundation of an International Sustainability Standards Board (ISSB) to develop a comprehensive global baseline of high-quality sustainability disclosure standards to meet investors' information needs. Exposure drafts for General Sustainability-related Disclosures and Climate-related Disclosures were published for comment in March 2022.

Regulatory

In Canada, the Canadian Securities Administrators (CSA) issued proposed National Instrument 51-107 *Disclosure of Climate-related Matters*. The proposal builds on guidance on climate change-related disclosures issued by the CSA only two years earlier, *CSA Staff Notice 51-358 Reporting of Climate Change-related Risks*. Additionally, in early 2022, the CSA published CSA Staff Notice 81-334 *ESG-Related Investment Fund Disclosure* to provide guidance on the disclosure practices of investment funds as they relate to ESG considerations, particularly funds whose investment objectives reference ESG factors and other funds that use ESG strategies.

To access the federal government's Large Employer Emergency Financing Facility during the COVID-19 pandemic, companies had to commit to provide climate change disclosure aligned with the TCFD recommendations.[2] Under the Government of Canada's Greening Government Initiative, federal Crown corporations are encouraged to publicly disclose their GHG emissions annually in accordance with the TCFD's recommendations. In its 2022 budget, the federal government stated that the Office of the Superintendent of Financial Institutions will require federally regulated financial institutions to publish climate disclosures aligned with the TCFD framework starting in 2024.

2 Final recommendations for climate-related financial disclosure were released by the TCFD in 2017.

Outside Canada, the push for enhanced disclosure is rapidly evolving. Initiatives are underway to require mandatory reporting in line with the TCFD recommendations. For example, in late 2021 the New Zealand government enacted mandatory climate-related financial disclosures aligned with the TCFD recommendations. The British government announced that it will make TCFD disclosures mandatory by 2025.[3]

In March 2022, the U.S. Securities and Exchange Commission (SEC) issued for public comment amendments to its rules under the Securities Act of 1933 and Securities Exchange Act of 1934. These proposed rules would require companies that are publicly traded in the U.S., including foreign private issuers, to provide prescribed climate-related information in their registration statements and annual reports.

In April 2022, the European Financial Reporting Advisory Group (EFRAG) submitted for public consultation draft EU Sustainability Reporting Standards (ESRS) including Exposure Draft ESRS E1 Climate change.

The ISSB exposure draft on Climate-related Disclosures published for comment in March 2022 will likely influence future regulatory requirements, especially if the standards are endorsed by the International Organization of Securities Commissions.

Investors and the Broader Financial Community

There is growing interest by investors and the broader financial community in ESG matters, including climate change. This interest is expressed in a number of current initiatives:

Climate Engagement Canada (CEC) was inspired by Canada's Expert Panel on Sustainable Finance. It is a finance-led initiative that encourages dialogue between the financial community and corporate issuers to promote a just transition to a net zero economy.[4]

In October 2021, 36 institutional investors managing $5.5 trillion in assets signed a new Canadian Investor Statement on Climate Change calling on companies to act on material climate risks.

The industry-led, UN-convened Net-Zero Banking Alliance, whose members represent more than 40% of global banking assets, committed to aligning their lending and investment portfolios with net-zero emissions by 2050. Similarly, the UN-convened Net-Zero Insurance Alliance, whose members represent more than 11% of the world's insurance premiums volume, committed to transition their insurance and reinsurance underwriting portfolios to net-zero emissions by 2050.

3 The U.K. Government target was announced by the Chancellor in November 2020. The U.K. Department for Business, Energy & Industrial Strategy conducted a consultation on mandatory disclosure by publicly quoted companies, large private companies and limited liability partnerships. The U.K. Financial Conduct Authority amended its listing rules to require companies with a premium listing to include in their annual reports the extent to which they have provided disclosure aligned with the TCFD recommendations and explain why any TCFD recommended disclosure was not provided starting with their 2021 annual reports. It is proposing to extend that listing requirement to standard listed issuers.

4 The CEC is led by several investor networks including the Responsible Investment Association (RIA), Shareholder Association for Research and Education (SHARE) and Ceres.

Federal Commitment

The Government of Canada has committed to reduce greenhouse gas emissions to net zero by 2050. This includes reducing most of its Scope 1 and Scope 2 emissions[5] by 40% compared to 2005 levels by 2025 and by 90% by 2050, with any remaining emissions balanced by an equivalent amount of carbon removal. In support of this commitment, it has adopted the Canadian Net-Zero Emissions Accountability Act to provide for regular measurement and reporting on progress.

Why the Audit Committee Needs to Engage on Climate Change

From assessing risks and strategic opportunities related to the physical impacts of climate change to the transition to a low-carbon or net-zero environment, the board's responsibility for climate change is far reaching. Different committees of the board may take responsibility for oversight of climate-related financial risks, such as the governance committee for stakeholder engagement on climate matters and the human resources committee for overseeing talent recruitment and retention, including employees with the skills needed for the transition to net zero. The audit committee will play a vital role with respect to financial accountability for, and disclosure of, the corporation's climate business plan and climate-related financial risks and opportunities.

Climate change-related matters are broad and complex, and organizations have different board committee structures and capabilities. Therefore, there is no one-size-fits-all approach – each organization will need to consider what approach best suits its current capabilities and plans in allocating responsibility for oversight in this area.

Fundamental Role in the Financial Reporting Process

The audit committee plays a fundamental role in overseeing the corporation's accounting, financial reporting and audit processes. The quality of internal financial reporting is key to making informed decisions on capital allocation within the corporation, while the quality of external financial reporting enhances market confidence, allows investors to make informed decisions, and enables the effective functioning of capital markets. In overseeing the corporation's financial reporting process, the audit committee considers and challenges the materiality of information to be disclosed, the integrity of the information gathered for disclosure purposes and consistency in the corporation's approach to reporting (for example, between regulatory and voluntary reports, or against industry peers). The audit committee also considers how the external financial reporting complies with generally accepted accounting principles (GAAP) and legal requirements with respect to financial disclosure, as well as the assurance requirements for financial reports.

5 Scope 1 emissions are greenhouse gases produced directly from owned or controlled sources (such as from vehicle fuel consumption). Scope 2 emissions are greenhouse gases generated indirectly from the consumption of purchased energy (electricity, heating and cooling).

To address climate change considerations when making decisions regarding strategy, opportunities and risk, a corporation needs a foundation of historic, verifiable information about how its operations contribute to and are affected by climate change. This process requires the identification of a range of relevant, objective, reasonably obtainable and comparable measures to periodically assess the corporation's climate change performance.

Audit Committee Skills

Audit committee members are required to meet certain minimum standards. In particular, National Instrument 52-110 *Audit Committees* requires that every reporting issuer have an audit committee comprising directors who meet independence requirements and are financially literate (i.e., have the ability to read and understand a set of financial statements that present a breadth and level of complexity of accounting issues that are generally comparable to those reasonably expected in the issuer's financial statements). While these standards are relevant to oversight of the financial impacts of climate change, the audit committee may want to consider additional specific climate change-related education and training.

Existing Reporting Requirements Under Canadian Securities Law

Under existing continuous disclosure obligations in Canadian securities law, an issuer is required to disclose in its Annual Information Form (AIF) risk factors relating to it and its business that would be most likely to influence an investor's decision to purchase the issuer's securities. Any climate change-related risks that are determined to be material to the issuer must be disclosed pursuant to this item. Further, an issuer is required to discuss, in its Management's Discussion & Analysis (MD&A), its analysis of its operations for the most recently completed financial year, including commitments, events, risks or uncertainties that it reasonably believes will materially affect its future performance.[6] As noted earlier, the CSA has also issued proposed new mandatory climate-related disclosure rules.

Considering Financial Implications to Inform Risk and Strategy Discussions

Climate considerations are relevant to many functions within the corporation, including finance, accounting, operations, human resources, marketing and investor relations. The corporation's financial reporting function is a hub for gathering, consolidating, analyzing and reporting on information from across the corporation's functions and divisions and can play a similar role with respect to climate change considerations, which also span the breadth of the corporation's activities.

Risk Management Integration and Disclosure

The TCFD has published **Guidance on Risk Management Integration and Disclosure** which is aimed at companies interested in integrating climate-related risks into their existing risk management processes and disclosing information on their risk management processes in alignment with the TCFD's recommendations.

6 For further information, refer to CSA Staff Notice 51-333 *Environmental Reporting Guidance*, CSA Staff Notice 51-354 *Report on Climate Change-related Disclosure Project*, and CSA Staff Notice 51-358 *Reporting of Climate Change-related Risks*.

The audit committee is well-positioned to oversee the intersectionality of different functions and divisions of the corporation as this is where the financial implications of corporate decision-making land. For similar reasons, the audit committee is assigned a key role in the board's risk oversight process.

In addition, the audit committee works closely with the chief financial officer (CFO). The CFO oversees how value creation, including accounting value and non-financial value, is measured and reported on in accordance with current and evolving frameworks. The CFO also oversees the corporation's funding sources and cost of capital as the corporation makes and discloses decisions related to climate change. This close relationship gives the audit committee a clear understanding of the corporation's capabilities for identifying, aggregating and assessing current and potential financial impacts of climate change relevant to corporate decision-making.

The Move Towards Net Zero

The *Canadian Net-Zero Emissions Accountability Act*, which became law on June 29, 2021, enshrines in legislation Canada's commitment to achieve net-zero emissions by 2050.

An increasing number of companies are disclosing commitments to become net-zero and a growing number are also disclosing their climate-action plans to achieve that goal. However, the evolving regulatory landscape and variety of voluntary sustainability reporting frameworks have created diversity in how climate-related data, including net-zero commitments, are reported by companies in Canada and globally.

Based on a ***Review of net zero disclosures: Challenges and opportunities*** by CPA Canada and Deloitte, there is room for improvement in current net-zero disclosure practices. In particular, there was difficulty in comparing net zero targets among companies and evaluating progress towards meeting them. In addition, action plans included varying levels of detail on how net zero goals will be achieved.

There is a clear role for audit committees in this space – "Audit committees will need to understand what net zero commitments the organization has made and ensure that management has a robust plan and the resources needed to define, measure, track and report progress against those commitments (including setting credible interim targets)." (KPMG, 2022)

Natural Extension of the Financial Reporting Process

The oversight of reporting on climate change metrics is a natural extension to the audit committee's role overseeing the financial reporting function. The TCFD recommends that governance processes for disclosures of climate-related financial risks in mainstream financial reporting should be similar to processes used for existing public financial disclosures, including review by the CFO and the audit committee. Oversight of climate

reporting by the audit committee provides an opportunity for the board to satisfy itself that there is a sound process underlying the reported climate metrics and that reporting on the climate-related financial information is consistent with reporting on other financial information.

While there is a degree of consensus and consistency on core elements of the financial reporting framework, several of these elements are currently absent or lagging from climate change reporting. Some examples of this contrast are included in the table below.

Reporting element	How it is addressed in financial reporting	But when it comes to climate change
What to measure and report	The financial position as of a certain date and the financial performance and cash flows over a period of time.	There is no consensus, although support for TCFD's recommendations continues to grow.
Internal controls over reporting and disclosure controls and procedures	An internal audit function assesses compliance.	Systems to collect data are in early stages and related controls and procedures have yet to be developed.
Standard for disclosure	IFRS or other GAAP measures are permitted under certain circumstances in Canadian securities law.	Multiple frameworks and standards exist (see Appendix A) and have begun to coalesce into a commonly accepted or mandated standard. However, there is momentum towards the development of a set of globally consistent disclosure standards.
External assurance on the reliability of the reported information	This comes in the form of an audit opinion that the information is fairly presented in all material respects.	There is no current requirement or commonly accepted standard explicitly related to assurance over climate information.

While elements of the climate change reporting process are evolving, the underlying process for reporting climate-related information is very similar to the broader financial reporting process that audit committees already oversee.

It is possible some climate-related financial information may be required to be disclosed in the financial statements. The SEC's proposed rules contemplate disclosure of disaggregated metrics relating to climate-related financial impacts, expenditures and estimates and assumptions in a note to the financial statements.

As sustainability reporting evolves, the use of third-party assurance on disclosure will become more important. For example, the proposed Corporate Sustainability Reporting Directive adopted by the European Union contemplates requiring corporations to obtain assurance (audit) of sustainability information, including climate change disclosure. The SEC's proposed rules would require third-party attestation reports covering an issuer's Scope 1 and Scope 2 emissions disclosure, initially at a limited assurance level but moving to a reasonable assurance level in the fourth fiscal year. Canadian CPAs are well-positioned to provide such assurance.[7] As audit firms increasingly provide assurance on non-financial disclosures, such as reporting on climate change, it will be efficient for the audit committee to oversee the independence, professional skepticism and performance of an audit firm in providing assurance on non-financial disclosure, in the same way it does in the context of financial disclosure.

For publicly traded companies, a rigorous process for reporting on financial metrics and forward-looking statements relating to climate change is also necessary to address potential civil liability and enforcement proceedings for inaccurate or misleading disclosures. Canadian securities laws provide investors with a statutory right to damages against the reporting issuer and its directors and executives for misrepresentations and for untimely disclosure. A misrepresentation is (1) an untrue statement of a material fact or (2) an omission of a material fact that is required to be stated in order to make a statement not misleading in the circumstances. Liability can arise for misrepresentations in voluntary disclosure, such as climate disclosure in an issuer's ESG report, and oral statements. Annual reports from the United Nations Environment Programme note an increasing worldwide trend towards the use of litigation to drive action on climate change. For example, claims have been made that:

- Companies have understated risks from climate change, especially physical risks due to extreme weather.
- Lack of climate change disclosure was a failure to comply with disclosure obligations under securities laws.
- A petroleum company's disclosure of its shift to renewables misled the public into believing the shift was larger than the reality.

7 CPA Canada's Sustainability Assurance Alert: A CPA's Role in Third-Party Assurance Over Sustainability Information provides guidance on how to approach sustainability assurance.

Canadian securities laws provide a defence to liability if reasonable investigation was conducted, and the defendant did not have reasonable grounds to believe that there was a misrepresentation. The financial reporting process can be leveraged to support the availability of a due diligence defence.

For example, a forward-looking disclosure, such as a commitment to achieve a specific climate target, should not be made unless the corporation has a reasonable basis for it. As well, other prescribed requirements under Canadian securities law for disclosing material forward-looking information also must be considered.

Movement Towards Global Reporting Standards Aligned With Financial Reporting

The broad interest in ESG issues, including climate change, has led to the development of a variety of sustainability reporting frameworks. Momentum is growing for global standardization of sustainability reporting.

Responses to a consultation paper on sustainability reporting issued by the IFRS Foundation confirmed that there is a growing and urgent demand for global sustainability reporting standards. In the Spring of 2021, the IFRS Foundation confirmed its intent to establish the ISSB with the following strategic direction:

- Focus on information that is material to investors, lenders and other creditors.
- Initially focus efforts on climate-related matters, while working toward meeting the information needs of investors on other sustainability matters.
- Build on the well-established work of the TCFD and alliance of other frameworks and standard setters.
- Work with standard setters from key jurisdictions to provide a globally consistent and comparable sustainability reporting baseline.

The G7 Finance Ministers and Central Bank Governors have expressed their support for the ISSB as a means of establishing a global baseline for sustainability reporting standards. The creation of the ISSB was announced in November 2021, with offices in Frankfurt, Germany (the seat of the Board and the office of the Chair), and in Montréal, Canada. In March 2022, the ISSB launched a consultation on its first two proposed standards. While the first standard sets out general sustainability-related disclosure requirements, it is not surprising that the ISSB focused on climate change for its second standard in light of widespread stakeholder interest in this area.

The Evolution of the Audit Committee's Role on Climate Change

The diagram below demonstrates how the board's role will evolve as expectations regarding the corporation's approach to climate change matures. The audit committee will play several key roles during this evolution.

FIGURE 2: THE BOARD'S EVOLVING ROLE

What to Measure and Report

The TCFD has published Guidance on Metrics, Targets, and Transition Plans which provides guidance on the development and selection of climate-related metrics that it believes all organizations can disclose. The audit committee has a role to play in ensuring the corporation measures the right things. This requires the audit committee to satisfy itself that management has internal expertise or has obtained external expertise to determine which metrics are most appropriate to the corporation's circumstances and its investors and other key stakeholders. In this process, the audit committee should have an understanding of management's process for assessing the materiality of climate risks from a financial reporting perspective.

Reliability of Data

Internal controls over reporting and disclosure controls and procedures build confidence in the use of data for internal and external decision making. Audit committees review the quality of these controls in place to ensure accuracy, reliability and consistency of metrics from one period to the next. The audit committee's oversight of the internal audit function can be expanded to make sure that data gathered for climate change reporting purposes is subjected to the same degree of rigor that is applied to financial reporting more broadly.

Materiality

Assessing climate change exposure and disclosure requires the application of judgment to determine what information is material. These decisions are challenging as materiality determinations vary depending on the nature of any regulatory requirements for disclosure and the needs and interests of the intended audience.

In terms of Canadian securities law requirements, for the purposes of the AIF and MD&A, information is likely material if a reasonable investor's decision whether to buy, sell or hold securities of the issuer would likely be influenced or changed if the information was omitted or misstated. Securities legislation imposes a different test for materiality in certain other contexts. As well, voluntary disclosure frameworks and security exchange policies offer other definitions of materiality outside regulatory requirements.

Although corporations must determine whether information is material to investors, the determination must be objectively supportable. As noted by Hansell in its **climate change opinion**, "Directors should also be aware that their decisions about disclosure are not protected by the business judgment rule."

Staff guidance from the CSA has made it clear that determining whether information is material is a dynamic process that depends on the prevailing relevant conditions at the time of reporting and encompasses consideration of both quantitative and qualitative factors. In assessing materiality, an issuer should consider both the probability of the event or trend occurring and the anticipated magnitude of its effect. Earlier disclosure might be important to reasonable investors if the impact might reasonably be expected to increase over time.

Canadian reporting issuers are also required to provide financial reporting in accordance with GAAP, including IFRS. Under International Accounting Standard (IAS) 1, *Presentation of Financial Statements,* "Information is material if omitting, misstating or obscuring it could reasonably be expected to influence decisions that the primary users of general purpose financial statements make on the basis of those financial statements, which provide financial information about a specific reporting entity." It is worth noting that primary users may include other groups beyond investors.

For further information on assessing materiality, corporations can refer to CPA Canada's guidance on ***Disclosing the Impacts of Climate Change: A Process for Assessing Materiality***.

Conclusion and Questions for Audit Committee Members to Ask

To address one of the defining global issues of our generation, audit committees need to consider extending their mandate to include oversight of reporting on climate change and satisfy themselves that the corporation's reporting is relevant, rigorous and consistent with its other disclosures. In doing so, audit committee members may wish to ask some of the following questions:

1. Where has the board allocated responsibility for overseeing the identification of and reporting on key climate change information?
2. Do we need any education or training on climate change to effectively support the board in overseeing climate change?
3. Is the corporation's finance function playing an appropriate role in the identification and reporting of climate change-related information? Does this information go through the same rigor as other reported information to ensure it is relevant, accurate and comparable?
4. Is the internal audit function involved in the oversight of gathering and reporting on climate change information and is it considering the quality of the controls in place to provide assurance the information gathered is reliable?
5. Has management provided the audit committee sufficient information on its materiality assessment process for climate change-related disclosures and how it selected the information and metrics to be reported on (e.g., comparison to industry peers)?
6. Is the corporation's reporting on climate change in its voluntary ESG or sustainability report consistent with the corporation's disclosure of risks, uncertainties and trends in its MD&A, AIF and other disclosures?
7. What are the trends in climate-related reporting and regulation that we need to pay attention to over time?

Other Resources

- Canada Climate Law Initiative. (2020, December 1). *Audit committees and effective climate governance – A guide for boards of directors* [PDF].
- Canadian Securities Administrators Staff Notices and Proposals
  - CSA Staff Notice 51-333 *Environmental Reporting Guidance*. (2010).
  - CSA Staff Notice 51-354 *Report on Climate Change-related Disclosure Project*. (2018).
  - CSA Staff Notice 51-358 *Reporting of Climate Change-related Risks*. (2019).
  - Proposed National Instrument 51-107 *Disclosure of Climate-related Matters*.
- Climate Governance Initiative. (2021). *Primer on climate change: Directors' duties and disclosure obligations – In support of the principles for effective climate governance*.
- CPA Canada publications
  - *2019 Study of climate-related disclosure by public companies* [PDF]. (2021).
  - *Climate change briefing: Questions directors should ask* [PDF]. (2017).
  - *Climate risk: Is it on your radar?* [PDF]. (2020).
  - *Disclosing the impacts of climate change: A process for assessing materiality* [PDF]. (2019).
  - *Getting to net zero: An assessment of 20 Canadian companies, their climate-action plans, and how they communicate them* [PDF]. (2021).
  - Investor interviews on climate-related disclosure and decision-making: Key findings. (2019).
  - Task force on climate-related financial disclosures (TCFD): Overview.
- SASB. (2021). *Climate risk technical bulletin*.
- Task Force on Climate-related Financial Disclosures Recommendations & Hub.
- TMX and CPA Canada. (2020). *A Primer for environmental & social disclosure*.

Appendix A

Commonly Used Sustainability and Climate Change-focused Disclosure Frameworks, Recommendations and Guidance

Sustainability disclosure frameworks, recommendations and guidance

Organization	Framework / Recommendation / Guidance
United Nations	The 17 Sustainable Development Goals are aspirational goals to be achieved by 2030. They are non-binding on both national governments and corporations but set out an ambitious plan of action in five areas: • people • planet • prosperity • peace • partnership
Global Reporting Initiative (GRI)	This set of general and industry-specific standards (qualitative and quantitative) covers three dimensions of sustainability: • economic • environmental • social The GRI standards are designed to facilitate disclosure that is useful to a broad range of users including investors, companies, policy makers, civil society, employees and customers.

<table>
<tr><th>Organization</th><th>Framework / Recommendation / Guidance</th></tr>
<tr><td>Value Reporting Foundation (VRF)</td><td>In 2021, the Sustainability Accounting Standards Board (SASB) and the International Integrated Reporting Council merged to form the VRF.
On November 3, 2021, the IFRS Foundation announced the planned consolidation of the VRF with the IFRS Foundation by mid-2022.
The VRF maintains the International <IR> Framework and SASB Standards.

The International <IR> Framework establishes guiding principles and content elements that govern the overall content of an integrated report for use by investors.

It highlights six types of capital to provide insight about the resources and relationships used and affected by an entity:
• financial
• manufactured
• intellectual
• human
• social and relationship
• natural

SASB standards are industry-specific standards (qualitative and quantitative) that cover five dimensions of sustainability:
• environment
• social capital
• human capital
• business model and innovation
• leadership and governance

The SASB standards are designed to facilitate disclosure that is useful to investors, lenders and other creditors for the purpose of making investment decisions.</td></tr>
<tr><td>World Economic Forum (WEF)</td><td>Drawing from the work of other frameworks, the WEF report Measuring Stakeholder Capitalism: Towards Common Metrics and Consistent Reporting of Sustainable Value Creation supports more consistent and comparable reporting. The recommended metrics are organized under four pillars:
• principles of governance
• planet
• people
• prosperity</td></tr>
</table>

Climate change focused disclosure frameworks, recommendation and guidance

Organization	Framework / Recommendation / Guidance
Task Force on Climate-related Financial Disclosures (TCFD)	This set of recommendations provides a framework for identifying and reporting on the impacts of different climate-related risks and opportunities on issuers. There are four overarching categories for the recommended disclosures: • governance • strategy • risk management • metrics and targets Although the users of the recommendations are not explicitly defined, entities are encouraged to disclose recommendations in their mainstream annual financial filings.
Climate Disclosure Standards Board (CDSB)	The CDSB framework sets out an approach to reporting environmental information in mainstream reports. The intended audience for information reported using this framework is investors and other primary users of mainstream financial reporting. On January 31, 2022, the IFRS Foundation, CDP and the CDSB confirmed that CDSB has been consolidated into the IFRS Foundation.
Carbon Disclosure Project (CDP)	CDP collects data through an annual survey and then scores companies and cities on a scale ranging from A to F. The survey can also function as a *de facto* disclosure standard for environmental information. Companies may include their responses to the survey within their sustainability reporting.

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