Millani's 8th Annual ESG Disclosure Study: A Canadian Perspective

October 28, 2024

A study of the 2023 ESG disclosures of Canadian S&P/TSX Composite Index Constituents

Since 2017, Millani has been conducting an annual review of the ESG (environmental, social, and governance) disclosures of S&P/TSX Composite Index constituents,[1] offering insights into the evolution of the reporting landscape in Canada. This year, the review was conducted on the most recent ESG reports of the 226 companies that constitute the S&P/TSX Composite Index. In examining these reports in detail, below are some key takeaways:

- **Continuing trend of double materiality assessments:** There has been an increase of 13 percentage points year-over-year, with 32% of the S&P/TSX Composite Index now performing double materiality assessments.
- **Evolving terminology:** The use of 'ESG' in corporate reports is declining, with 'sustainability' re-emerging as the preferred term.
- **Development of climate disclosures:** Climate disclosures are maturing, with more companies using scenario analysis and a wider range of accurate scenarios.
- **Growth in executive ESG and climate-linked compensation:** The proportion of companies linking executive compensation to climate goals has doubled, and 83% of issuers now link compensation to overall ESG goals.
- **Biodiversity reporting disparity:** While 55% of companies report on biodiversity metrics, only 1% meet the standards of the Taskforce on Nature-related Financial Disclosures (TNFD), indicating a gap between reporting metrics and meeting emerging disclosure standards.

Key observations

In 2024, we continue to see sustainability disclosures grow in sophistication and maturity, with 73% of the S&P/TSX Composite Index constituents[2] having published their ESG or sustainability reports.[3] This is up from 71% last year but still falls short of the 80% reporting rate observed in 2022, likely influenced by increasingly advanced regulatory frameworks and shifting market expectations as public issuers disclose their sustainability information. In Millani's latest Semi-Annual ESG Sentiment Study of Canadian Institutional Investors (IIS study, or Institutional Investor Sentiment study),[4] we posed the question: "Is ESG dead?". The results confirmed that ESG is far from dead, with 81% of participants responding "No", and an additional 16% commenting that – while still important – it is no longer sufficient in its current form and is evolving into something else. A new 'ESG+' approach is emerging, where we are seeing deeper assessments of sustainability, and where tangible outcomes are becoming the key focus for investors and stakeholders. This year, we are witnessing corporates expand their ESG lens to encompass impacts in addition to risks and opportunities, aligning with Millani's 2023 call on the 'move to impact'.

The increasing adoption of disclosure regulations over the past years has resulted in a high degree of compliance among issuers. However, a critical question arises: To what extent are these regulations driving meaningful change in business practices? Are they producing the desired outcomes in sustainability performance? Or are they treated merely as a box-ticking exercise?

A key indicator of the growing commitment to sustainability performance is the rise in ESG-linked executive compensation, which has reached 83% among issuers that have released reports in 2024, up from 67% last year. In contrast, during the same reporting period, 63% of the S&P 500 firms included ESG components in their executive compensation.[5] This growth highlights how deeply Canadian companies are embedding ESG performance metrics into their strategic goals.

With the advent of global sustainability-related disclosure standards, such as the International Sustainability Standards Board's International Financial Reporting Standards (IFRS) S1 and S2, and the European Sustainability Reporting Standards (ESRS), as mandated by the Corporate Sustainability Reporting Directive (CSRD), we see the growing influence of global regulations on Canadian issuers' competitive position for access to capital. Companies that do not fall under CSRD's direct scope are still feeling the pressure, as their peers begin to align with the ESRS, and some of their investors begin to report in alignment with the Sustainable Finance Disclosure Regulations (SFDR). The added consideration to align with the ESRS is the inclusion of the impact perspective to the materiality assessment process, leading to a view of impacts, risks and opportunities (IROs) of ESG topics.

This year's study explores these themes, providing a comprehensive view of how Canadian issuers are responding to global expectations and whether the regulatory landscape is leading to impactful, long-term business changes.

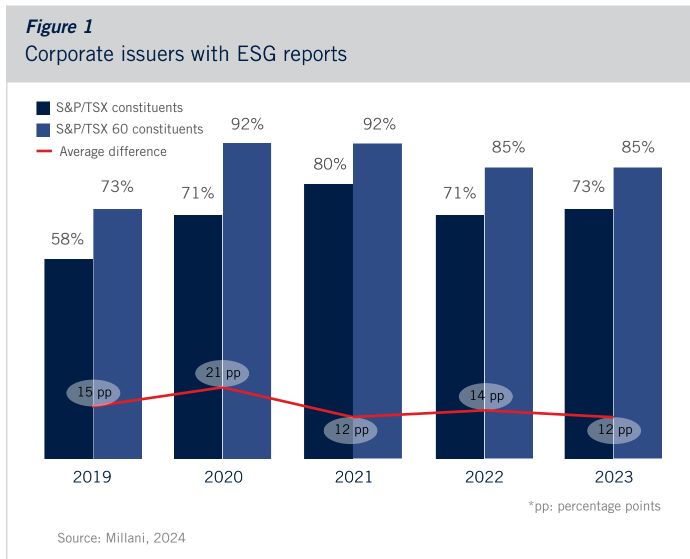
1. The final list of S&P/TSX Composite Index constituents used for this study was retrieved on August 30, 2024.
2. Unless otherwise specified, all statistics and data presented in Millani's report are based on information provided by the 165 (of 226) S&P/TSX Composite Index constituents which had a sustainability report published in 2024 or covered data from the 2023 reporting period.
3. Report nomenclature varied between "ESG", "sustainability", "CSR", or other. In all other sections of this paper, the term "sustainability report" refers to all reports, regardless of the publication's title.
4. *Semi-Annual ESG Sentiment Study of Canadian Institutional Investors*, Millani, September 2024.
5. *ESG Overperformance? Assessing the Use of ESG Targets in Executive Compensation Plans*, Adam B. Badawi and Robert Bartlett, August 29, 2024.

Context

Overview of sustainability disclosure landscape

As of August 30th, 2024, Millani's research shows that 73% of the S&P/TSX Composite Index constituents have published their 2023 ESG or sustainability reports, up from 71% last year but below the 80% reporting rate observed in 2022. In comparison, the proportion of Russell 1000 companies reporting on sustainability in 2023 reached 93%.[6] The S&P/TSX60 Index, comprising the large-cap segment of the Canadian equity market, continues to lead by example with 85% of companies publishing sustainability reports over the same period. However, a record high of 98.6% of companies on the S&P 500 Index published sustainability reports in 2023,[6] highlighting the disclosure gap between Canadian companies and their American counterparts.

Figure 1
Corporate issuers with ESG reports

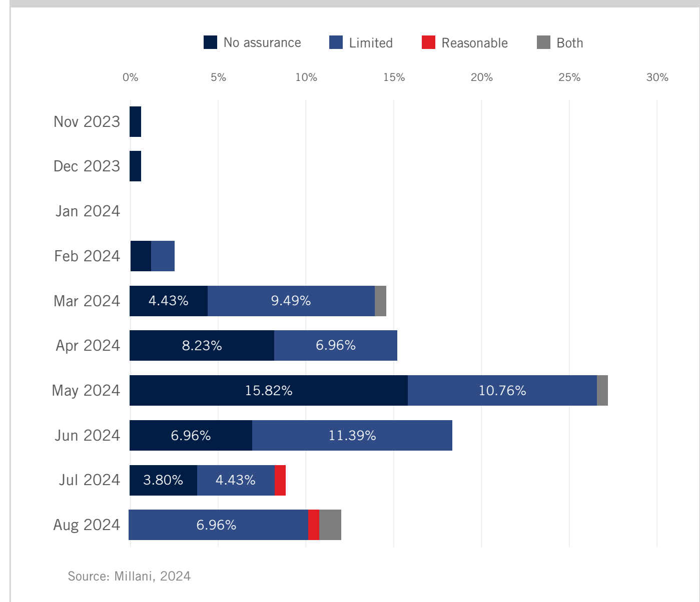


Source: Millani, 2024

Assurance

In last year's Disclosure Study, our team observed some delay in report release dates. One hypothesis was that the delays could be connected to lengthier assurance procedures. Upon examination, the opposite appears to be true as reports with assurance were published earlier in the year compared to those without, as shown in figure 2. Of the companies that sought assurance, 87% made their assurance statements publicly available.

Figure 2
Reporting month and assurance level of ESG reports



Source: Millani, 2024

In Canada, obtaining assurance on sustainability-related information remains voluntary as the Canadian Security Administrators (CSA) do not require organizations to do so. Nevertheless, a growing number of companies are electing to obtain third-party assurance for their sustainability data. This year, 51% of companies that released reports chose to obtain some level of assurance (limited, reasonable, or both) on elements of their sustainability reports, up from 46% in 2023 and 31% in 2022. The same trend is happening south of the border as well, with 48% of Russell 1000 companies obtaining external assurance for their non-financial ESG disclosures in 2023, doubling from 24% in 2019.[6]

The approach to third-party assurance varies in level and scope among issuers, with the majority favouring limited assurance for greenhouse gas (GHG) emissions disclosures or certain sections in their report. Only 4% of S&P/TSX Composite Index companies opted for reasonable assurance for part, or all, of their sustainability reports. Similarly in the U.S., only 6% of companies obtained reasonable/high level of external assurance for their sustainability disclosures.[6]

The Securities and Exchange Commission (SEC) has adopted climate-related disclosure rules in March of 2024, likely triggering the assurance uptake observed for U.S. companies.[7] The rule entailed that large, accelerated filers must obtain external assurance for their Scope 1 and Scope 2 GHG emissions metrics,

6. *2024 Sustainability Reporting in Focus*, Governance & Accountability Institute, Inc. (G&A), September 2024.
7. *Key Implications of SEC's Climate-Related Disclosure Rules for Public Companies*, Sullivan Cromwell, March 2024.

beginning with limited assurance and scaling up to reasonable assurance in seven fiscal years. If adopted in their suggested format, the Canadian Sustainability Disclosure Standards (CSDS 1 and CSDS 2), based on IFRS S1 and S2, will provide the framework for consistency and comparability of disclosures, thus allowing for third-party assurance.[8] To get ahead of that wave, both a materiality assessment process and sustainability disclosures, beyond data, should be prepared with adequate rigor for auditability.

Bill C-59

On June 20th, 2024, Bill C-59[9] received royal assent in Canada, bringing key amendments to the Competition Act to address greenwashing – or "false, misleading, or deceptive environmental claims made for the purpose of promoting a product or a business interest".[10] Since the Bill's introduction, we have witnessed mixed reactions in the Canadian market. As we completed our research, 6.7% of S&P/TSX Composite Index constituents (15 companies) had blocked their sustainability disclosures due to the implications of Bill C-59. This might be an indication of the Bill's potential impact on corporate disclosures and transparency levels that investors seek. While this might be true for some issuers, the remaining 93% of companies which released reports this year did not comment on the Bill.

More details on the market reaction from institutional investors to the adoption of Bill C-59 can be found in Millani's briefing note[11] on the competition act amendments on greenwashing.

Evolution in the investor world

Through Millani's close connection with institutional investors, we are observing that the investor landscape is also rapidly evolving, driven mostly by competitive dynamics. The European Commission introduced the Sustainable Finance Disclosure Regulation (SFDR) in 2021, which requires EU financial market participants and companies that market or manage products in the EU to disclose data on the integration of sustainability risks into their investment decisions, as well as the principal adverse impacts (PAIs) of these risks. This extends to the disclosure of EU Taxonomy information, classifying company activities' contribution to environmental sustainability objectives.

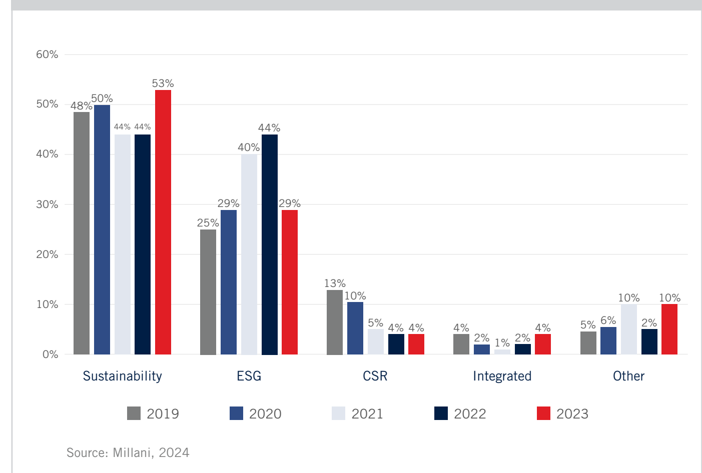
Of companies that published reports in 2023, 14% mention ESRS or CSRD, and only one company claimed to have aligned its reporting with the European regulations. Additionally, only 2.4% of companies mentioned SFDR in their reports and 3.6% reported revenues aligned with the EU Taxonomy. Despite the low rates of alignment, our study shows that companies which adopt a double materiality perspective were 8.32x more likely to also mention EU Taxonomy-aligned revenue. Close to 10% of reporting issuers disclosed revenues aligned with other taxonomies.

As European investors and non-EU financial market participants selling into European markets align their reporting with SFDR requirements, they will rely on getting sustainability information directly from companies' disclosures. Investors will need the detailed information disclosed, such as material IROs and their connection to the business model and strategy, to be able to report on their own due diligence processes and engagement policies around PAIs, as required by the SFDR's comply or explain rules.[12]

What's in a name?

Over the past eight years, Millani tracked the evolving nomenclature used in reports addressing ESG topics. Between 2017 and 2021, our research noted a growing adoption of the term "ESG" compared to other terms such as "sustainability" or "CSR". However, this year we saw a reversal with only 29% of S&P/TSX Composite Index constituents with a 2023 report use the term "ESG" compared to 40% last year. Instead, 53% of reports used "sustainability" in the title. A Stanford Law School paper analyzing 250 sustainability reports from S&P 500 companies published in 2024 highlighted a similar trend, with the acronym "ESG" losing its spot as most common key word among reporters. For the S&P 500, the term "ESG" dropped from 29% to 24% in 2023, and was replaced by the term "sustainability" as the most common key word for 39% of reports.[5]

Figure 3
Naming used for the reports over the years



Source: Millani, 2024

8. CSSB Exposure Draft – Proposed Canadian Sustainability Disclosure Standard (CSDS) 1, General Requirements for Disclosure of Sustainability-related Financial Information, Financial Reporting & Assurance Standards Canada (FRAS), March 2024.
9. Fall Economic Statement Implementation Act, Parliament of Canada, March 2023.
10. Environmental Claims and Greenwashing, Competition Bureau Canada, December 2021.
11. Briefing Note: Amendments to Canada's Competition Act on Greenwashing – Market Reactions and Implications, Millani, July 2024.
12. Sustainable Finance Disclosure Regulation: Detailed Rules on Disclosures, Kirkland & Ellis, February 2021.

This decline is not unexpected. Regulations in various jurisdictions, such as the ISSB and the CSRD, are adopting the broader term "sustainability" when covering environmental, social, and governance topics. This shift may reflect a growing focus on ESG+ considerations, which are increasingly sought by investors.

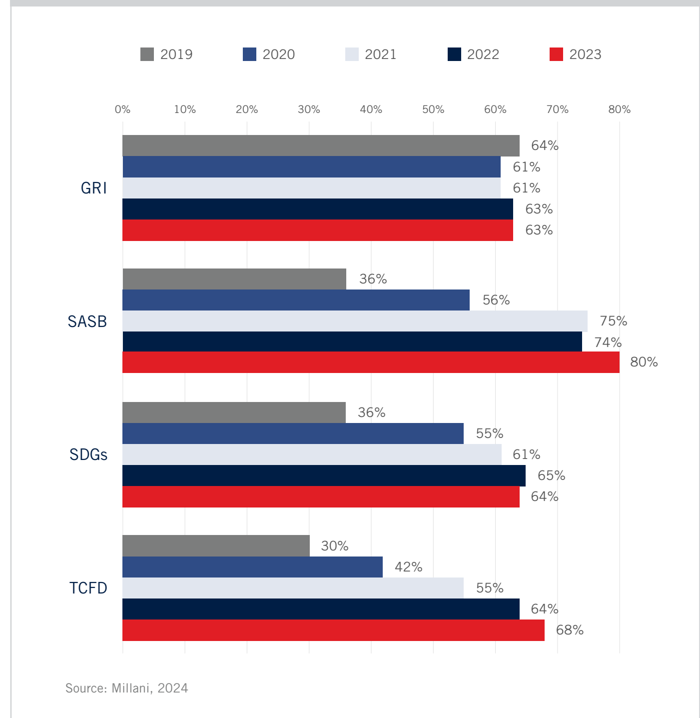
Furthermore, the language, format, and content of sustainability reporting is expected to continue to change over the coming years to align with evolving regulations. For companies that must align with CSRD, for instance, disclosure on sustainability topics will become part of a "sustainability statement" to be included in a dedicated section of the management report.[13] The presentation requirements, including content and structure of the sustainability statement, are defined by ESRS. During 2024, the EU has released several ESRS implementation guides, with further guidance for high-impact sectors expected to come out in the coming months.[14]

Frameworks

GRI, SASB and TCFD

Over the years, Millani has paid close attention to the adoption of various frameworks by the constituents of the S&P/TSX Composite Index. Corporate issuer alignment with the Sustainability Accounting Standards Board (SASB) has reached an all-time high of 80%, representing an increase from 74% last year. The use of other sustainability reporting frameworks such as the Global Reporting Initiative (GRI) and the Taskforce on Climate-related Financial Disclosures (TCFD)[15] has remained relatively stable compared to last year's results, at 63% and 68%, respectively, as shown in figure 4. However, we expect to see increased alignment with GRI in the coming years as GRI and IFRS collaborate to achieve full interoperability,[16] and lessen the burden for reporters.

Figure 4
Frameworks used in ESG reporting over the years



Source: Millani, 2024

SDGs

The incorporation of the United Nations Sustainable Development Goals (SDGs) in reporting has steadily increased over the years, reaching 65% in 2022 and holding at 64% in 2023. Beyond the use-rate, our research shows that the way the SDGs are being used has evolved. Among issuers referencing the SDGs in their reporting, 80% only highlight positive contributions to the goals, up from 56% last year. In contrast, the percentage of companies that only mention the SDGs without detailing their contribution to the goals has sharply declined, from 25% last year to 7% this year. Additionally, the number of companies sharing both positive and negative contributions increased from 4% to 13%. However, companies are still at the beginning of this journey as the move towards double materiality requires the assessment and disclosure of both positive and negative impacts.

13. *The "Summer of CSRD" series – general presentation requirements*, Ropes & Gray, September 2023.
14. *Sector-specific ESRS*, EFRAG, September 2024.
15. The Taskforce on Climate-related Financial Disclosures has been integrated into the International Sustainability Standards Board (ISSB)'s IFRS S2 standard on climate-related disclosures as of 2024, but companies are still using the TCFD term in their Sustainability/ESG and Climate standalone reports.
16. *GRI and IFRS Foundation collaboration to deliver full interoperability that enables seamless sustainability reporting*, IFRS, May 2024.

Double materiality is here

A key distinction between the ISSB-inspired Canadian Sustainability Standards Board (CSSB) and European disclosure standards lies in their approach to materiality – single (financial only) vs. double materiality.[17] Double materiality assesses sustainability-related topics based on both their impact and financial materiality and is required by ESRS for CSRD reporting.

Millani's research last year revealed that 19% of Canadian issuers in the S&P/TSX Composite Index conducting materiality assessments were using the double materiality approach. This year, that number has increased, with almost one-third (32%) of companies now adopting the double materiality perspective for their assessments. In the U.S., the number of S&P 500 companies that have completed, or were in the process of completing, double materiality assessments tripled from 9% in 2023 to 27% in 2024.[5] While about 1,300 Canadian companies will be required to align with CSRD by 2029, at the latest,[18] the uptake in conducting double materiality assessments – and the increase in requests for support we are seeing through our practice – suggests that there are drivers beyond regulatory pressure. Competitive dynamics as companies seek to access capital from Canadian and international investors are likely to influence their decision to adopt such leading practices.

The Extractive and Minerals Processing sector continues to lead in adopting the double materiality perspective, with companies in this sector being 2.09x more likely to use this approach compared to other sectors. However, it is not the only sector making this move. Companies in infrastructure, financials, technology & communications, transportation, as well as food and beverage and consumer goods are all beginning to opt for a double materiality perspective. Large-cap[19] companies are also at the forefront, with nearly half (45%) of large caps already applying a double materiality approach.

Figure 5
Materiality perspective across sectors in proportion to their weight in the S&P/TSX Composite Index

SICS Sector	Financial materiality only	Double materiality
Consumer Goods	5%	1%
Extractive & Minerals Processing	20%	17%
Financials	9%	4%
Food & Beverage	5%	1%
Health Care	There were no reports for this sector published at the time of our analysis.	
Infrastructure	16%	5%
Renewable Resources & Alternative Energy	1%	-
Resource Transformation	6%	-
Services	1%	1%
Technology & Communications	4%	2%
Transportation	1%	1%

Source: Millani, 2024

Despite the growing use of double materiality, only 9% of those adopting this perspective are disclosing at the impacts, risks and opportunities (IRO) or risks and opportunities (RO) level, as required by CSRD and IFRS, respectively. The remaining 91% disclose at the topic level. It is worth noting that the European Financial Advisory Group (EFRAG) released their detailed guidance on IRO disclosures under ESRS Implementation Guidance documents in May of 2024,[20] leaving issuers with limited time to fully align with these standards in this year's reporting.

The data suggests that companies recognize the strategic value of double materiality assessments for understanding their material IROs. The level of detail in disclosing the outcomes of such assessments becomes a subsequent strategic decision, influenced by both regulations and competition for access to capital.

Understanding the sustainability-related material impacts, risks and opportunities – and how they interact with the business model – is a matter of business strategy, it is not merely a compliance exercise.

17. *ESRS–ISSB Standards Interoperability Guidance*, EFRAG and IFRS Foundation, May 2024.
18. *At Least 10,000 Foreign Companies to Be Hit by EU Sustainability Rules*, Wall Street Journal, April 2023.
19. Large-cap companies have a market capitalization of more than C$10 billion.
20. *EFRAG IG 1: Materiality Assessment Implementation guidance*, EFRAG, May 2024.

However, there are potential downsides to not fully embracing the double materiality approach. With the increasing pressure from investors and the growing number of competitors aligning with CSRD requirements, companies will face an important strategic decision about their sustainability disclosures and materiality assessment processes. From a competitive standpoint, is partial alignment to ESRS sufficient, or should companies be prepared to fully meet these standards? As Canadian issuers compete for international capital, keeping up with emerging global best practices could be a key factor for success.

Climate disclosures are maturing

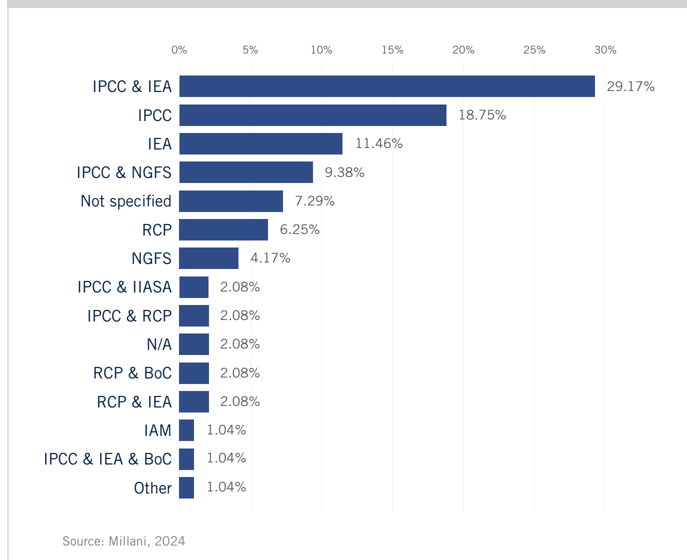
Millani's latest IIS study (September 2024) revealed a significant shift in priorities: the number of investors ranking climate change as a top three ESG topic has fallen from 90% in December 2023, to 59% in June 2024. Some participants explained this drop by the fact that investors have done the work to develop their climate strategies and understand the climate risk exposure within portfolios. Climate considerations are now integrated in the investment process for the broad base of institutional investors. They are now relying on issuers to provide them with their climate data as well as their strategies and transition plans.

On the corporate side, climate disclosures are also showing signs of maturity and evolution. Most reporting companies now include climate-related topics in their materiality assessment and disclosure. In fact, 86% of the constituents of the S&P/TSX Composite Index mention TCFD in their sustainability reports. Specifically, 68% provided TCFD-aligned disclosures or a standalone TCFD report; 15% mentioned the TCFD framework within their climate disclosures; and 3% committed to align with TCFD in the future.

Other indicators of the growing sophistication of climate disclosures in Canada include a rise in scenario analysis, with 58% of constituents having conducted climate scenario analysis, up significantly from 13% in 2021. An additional 11% committed to conducting scenario analysis in the coming year.

The number and variety of scenarios being used in these analyses further demonstrate this maturity. While basing the analysis on three scenarios is still the most common approach, there has been an increase in companies using four, five, and even up to ten scenarios. The diversity of scenario sources has also broadened in comparison to last year, showing that companies are increasingly tailoring these assessments to fit their business models and strategies as shown in figure 6.

Figure 6
Sources of climate scenarios used by issuers in 2024 disclosures



Source: Millani, 2024

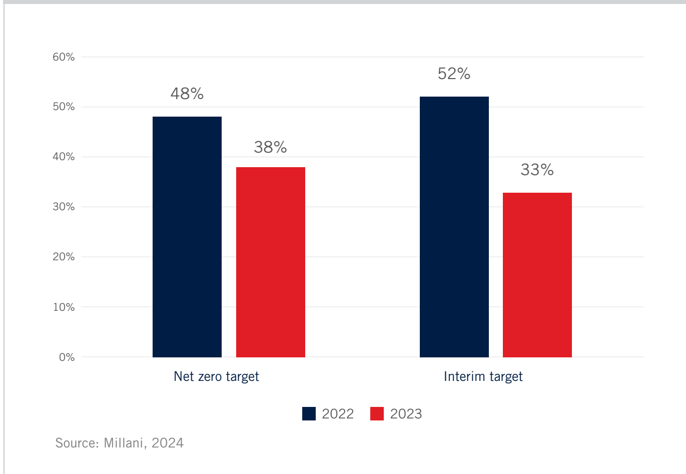
Executive compensation linked to climate-related targets has almost doubled, increasing from 27% in 2023 to 50% in 2024. Among companies that have conducted climate scenario analysis, this number jumps to 63%, reflecting what appears to be a deeper commitment to climate action.

Despite being an indicator tied to the EU Taxonomy and IFRS S2, there has been a continued rise in the number of Canadian issuers disclosing their capital deployment financial metrics (CAPEX, OPEX, or revenue) aligned with the 1.5-degree climate target, growing from 10% last year to 17% in 2024. As global efforts on decarbonization intensify, both international and Canadian investors are seeking better disclosures on capital deployment for transition plans.

Canadian issuers have demonstrated strong compliance with ISSB requirements on climate disclosures, with 94% disclosing Scope 1 and 2 emissions. Disclosure of Scope 3 emissions (full and partial) has also increased, with 66% of companies including this in their 2023 sustainability reports, despite ISSB's proposed relief period.

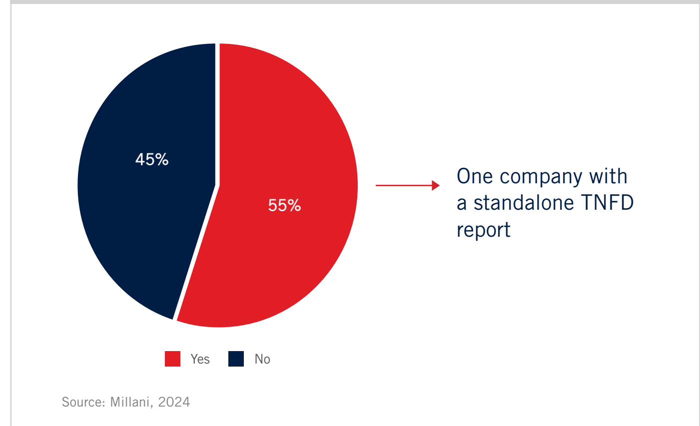
However, counter to the trend of the past three years, we have seen a decline in the number of companies setting and disclosing climate targets. Disclosure on Net zero targets has dropped from 48% to 38%, and interim target disclosure have similarly fallen from 51% to 33%. The only exception is Science Based Targets (SBTi), where slightly more companies have either committed to (10%) or achieved certification (12%) than last year (7% and 10%, respectively). Investors are increasingly engaging companies to assess the validity of their climate targets.

Figure 7
Climate-related targets disclosures



Source: Millani, 2024

Figure 8
Issuers disclosing biodiversity metrics in their 2023 ESG reports



Source: Millani, 2024

Participants in Millani's latest IIS study[4] strongly conveyed that they felt Canada should align with ISSB standards, stressing the importance of aligning with the global baseline. However, some voiced concerns about the heavy emphasis on climate and CSDS 2 (climate-related disclosures), pointing out that CSDS 1, which covers general sustainability-related financial disclosures, is just as important and must not be overlooked. This is significant given that the CSA has signaled a focus on climate, while investors have voiced a preference for a broader, more comprehensive approach.

Biodiversity

Over the past few years, issuers have made significant strides in climate-related disclosures, and there is a growing sentiment for a need to address biodiversity with the same rigor. According to Millani's latest IIS study, investors increasingly view climate and biodiversity as interconnected within the "E" of ESG. Biodiversity disclosures are gaining momentum, with 55% of 2023 reports including relevant metrics, a significant jump from 34% last year. The Taskforce on Nature-related Financial Disclosures (TNFD) framework published its disclosure recommendations in September 2023. However, our research indicates a gap between the disclosure of initial metrics and fully adopting best practices. This year, only 1% of issuers claim some alignment with the TNFD, with one company publishing a standalone TNFD report. Seven percent of issuers committed to align to the TNFD in the future, while 13% mention the TNFD without yet adhering to the framework for their disclosures.

This presents an opportunity for companies to take a leadership position on biodiversity action and demonstrate it to investors through disclosures. The gap between reporting metrics and fully aligning with TNFD may be due to limited resources or companies' ongoing focus on climate disclosures. Nonetheless, lessons learned from aligning with the TCFD can accelerate progress on the TNFD front. Climate and biodiversity are deeply interconnected and should not be treated separately; aligning efforts on both fronts is crucial to remaining competitive and addressing investor expectations. Boards may wish to begin to consider if, and how, biodiversity fits into their strategic planning to strengthen their company's leadership position.

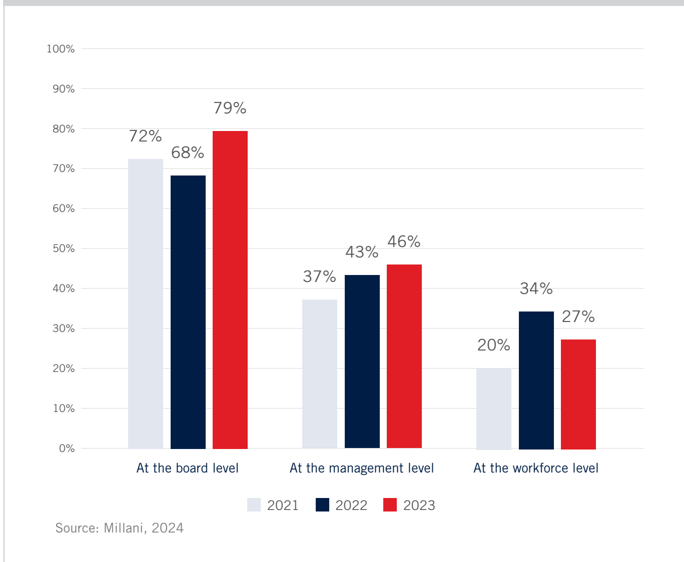
What is happening with equity, diversity and inclusion (EDI)?

Millani's latest IIS study shows a significant drop in Equity, Diversity, and Inclusion (EDI) as a top ESG focus, falling from 71% in 2021 to 16% in 2024. According to one asset owner, EDI remains a priority for large organizations ***"but they may not talk about them as much, similar to some other ESG topics, due to the political debate and therefore may not disclose as much on these topics."***

Under the Canada Business Corporations Act (CBCA), as amended by Bill C-25 in 2018,[21] federally incorporated public companies are required to disclose diversity information at the board and senior management levels. The CBCA disclosure rule focuses on the representation of four groups: women, Indigenous peoples, persons with disabilities and members of visible minorities. Our research highlights that most companies align with the requirements, with 79% of issuers disclosing EDI targets at the board level, and 46% at the management level, however, only 27% extend these targets to their broader workforce.

21. *An Act to amend the Canada Business Corporations Act, the Canada Cooperatives Act, the Canada Not-for-profit Corporations Act and the Competition Act, Bill C-25*, Parliament of Canada, May 2018.

Figure 9
Percentage of TSX-listed companies disclosing EDI targets



Source: Millani, 2024

The Canadian Securities Administrators (CSA) have had diversity disclosure rules in place since 2014, which specifically address gender diversity on boards. In May 2023, the CSA launched a consultation seeking comments on two proposed approaches for reforms to expand this framework. The first option includes mandatory reporting on diversity policies and targets for five designated groups (women, visible minorities, Indigenous peoples, persons with disabilities, and LGBTQ2+). The second is a more limited option that focuses on corporate reporting of diversity policies and targets, maintaining the requirement for disclosing metrics on women representation.

Currently, 86% of issuers have disclosures on the four underrepresented groups at the board level as mandated by the CBCA's diversity disclosure rule. While awaiting updates from the CSA, especially concerning the broader inclusion of groups like LGBTQ2+ individuals, 14% of issuers began disclosing their diversity metrics on all five groups.

Indigenous relations

Canada formally endorsed The United Nations Declaration on the Rights on Indigenous Peoples (UNDRIP) in 2016.[22] Since then, the federal government passed legislation such as the United Nations Declaration on the Rights on Indigenous Peoples Act in 2021, aimed at aligning Canadian laws with UNDRIP.[23]

GRI Standard 411, which focuses on the Rights of Indigenous Peoples, was informed by several authoritative intergovernmental instruments, including UNDRIP, making it a useful disclosure instrument for Canadian issuers looking to share information on the topic. Our research shows that 64% of the S&P/TSX Composite Index constituents with sustainability reports this year included metrics on Indigenous relations, such as workforce representation and the GRI indicator, Incidents of violations involving the rights of Indigenous peoples. It is noteworthy that all reports on this indicator disclose zero incidents of violations. This raises the question about the objectivity of the mechanisms or due diligence processes put in place by companies and regulators to capture such incidents to ensure transparency in reporting.

Ten percent of issuers obtained the 'Committed' level of participation in the Partnership Accreditation in Indigenous Relations (PAIR, previously PAR or Progressive Aboriginal Relations) certification, thus initiating their process to become fully certified at a bronze, silver or gold level pending evaluation. PAIR, established by the Canadian Council for Aboriginal Business, confirms corporate performance in Aboriginal relations. While this figure is consistent with last year's result and demonstrates no new adopters of the program, Indigenous relations remain a crucial topic for the Canadian business context, and we will continue to track progress.

Bill S-211 – Fighting Against Forced Labour and Child Labour in Supply Chains Act

Supply chains have long been a focal point of sustainability disclosures, and the recent adoption of Bill S-211[24] in 2023 introduced new requirements for reporting on forced labour and child labour in supply chains. Our research indicates that 79% of issuers have submitted their mandatory annual reports to the Minister of Public Safety, as of May 31st, 2024. Of these, 87% have both supply chain policies and due diligence processes in place to address forced labour and child labour, while the remaining 13% have only shared their policies. Last year, 40% of the constituents of the S&P/TSX Composite Index assessed reported conducting supply chain audits.

The effectiveness of regulations in achieving their goals can depend significantly on their design and implementation. While the data reflects a high degree of compliance with the reporting requirement, it is important to assess the substantive nature of the information disclosed and whether it reflects tangible and genuine improvements in addressing forced labour and child labour in supply chains.

22. *United Nations Declaration on the Rights of Indigenous People*, United Nations General Assembly, September 2007.
23. *Backgrounder: United Nations Declaration on the Rights of Indigenous Peoples Act*, Department of Justice Canada, June 2021.
24. *Bill S-211 Fighting Against Forced Labour and Child Labour in Supply Chains Act*, Parliament of Canada, May 2023.

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Conclusion

The evolving ESG landscape offers both challenges and opportunities for Canadian companies. While it is crucial to meet disclosure requirements and ensure data accuracy, issuers must not lose sight of the bigger picture. There is a major shift happening in capital markets with the move towards impact, and investors are realizing that it brings significant strategic value beyond compliance.

The process of getting to sustainability disclosures is key and should not be viewed as a box-ticking exercise. In this move towards impact, the double materiality approach brings significant strategic value creation leading to the attraction of new and retention of current investors. As markets move to consider positive or negative impacts connected to financial returns, there is currently a first mover's advantage. Given the focus on impacts, which requires a longer-term investment approach, it is anticipated that we will see higher concentration and lower turnover in portfolios, providing a favorable position for issuers that embrace this change in its early stages. There may be an opportunity to align corporate strategy with the evolving priorities of the capital markets and gather new capital sources to drive long-term value creation.

Study methodology

For its 8th annual ESG Disclosure Study, Millani researched corporate ESG disclosure of the constituents of the S&P/TSX Composite Index published during the calendar year 2024 or covering 2023 reporting year data. The list of the 226 S&P/TSX Composite Index constituents was extracted on August 30th, 2024. Millani's analysis took place in July and August 2024 and includes all reports released up until August 31st, 2024. Corporations were categorized according to their SASB Sustainability Industry Classification System (SICS) sectors. Millani used the procedures of inspection and observation of publicly available documents to conduct this study.

Glossary of acronyms

Acronym	Description
CBCA	Canada Business Corporations Act
CSA	Canadian Security Administrators
CSDS 1 and 2	Canadian Sustainability Disclosure Standards on General Requirements for Disclosure of Sustainability-related Financial Information (CSDS 1) and Climate-related Disclosures (CSDS 2)
CSR	Corporate social responsibility
CSRD	Corporate Sustainability Reporting Directive
CSSB	Canadian Sustainability Standards Board
EDI	Equity, Diversity, and Inclusion
EFRAG	European Financial Advisory Group
ESG	Environmental, Social and Governance
ESRS	European Sustainability Reporting Standards
GHG emissions	Greenhouse gas emissions
GRI	Global Reporting Initiative
IFRS S1 and S2	International Financial Reporting Standards on General Requirements for Disclosure of Sustainability-related Financial Information (S1) and Climate-related Disclosures (S2)
IROs	Impacts, risks and opportunities
ISSB	International Sustainability Standards Board
PAI	Principal adverse impact
PAIR, previously PAR	Partnership Accreditation in Indigenous Relations
ROs	Risks and opportunities
SASB	Sustainability Accounting Standards Board
SBTi	Science Based Targets initiative
SDGs	United Nations Sustainable Development Goals
SEC	Securities and Exchange Commission
SFDR	Sustainable Finance Disclosure Regulations
SICS	Sustainability Industry Classification System
TCFD	Taskforce on Climate-related Financial Disclosures
TNFD	Taskforce on Nature-related Financial Disclosures
UNDRIP	United Nations Declaration on the Rights on Indigenous Peoples

About Millani

Millani provides responsible investing and corporate sustainability advisory services, including ESG integration and impact, to both investors and companies.

For the past 15 years, Millani has become the partner of choice for institutional investors and corporations alike. By providing advisory services on integrating material ESG issues into investment strategies and decision-making processes, Millani helps reduce risks, increase returns and create value. Millani also regularly develops leading thought leadership on investor and disclosure trends. The firm leverages this expertise and experience to help corporations, both public and private, create strategies, engage with stakeholders and strengthen their disclosures, supporting the organizations in their access to capital and optimization of market value.

Millani's success is founded on a bespoke, client-centric approach that focuses on material issues, practical implementation, and independent advice. Our extensive capital market experience and unparalleled expertise in ESG, and its connection to value creation, position Millani at the nexus between investors and companies—making us unique in the Canadian market.

For more information, contact us at info@millani.ca or visit our website www.millani.ca.

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