

ONYEN
ESG Reporting Software



THE OPPORTUNITIES OF SUSTAINABILITY REGULATION
LAWRENCE BOYCE, CEO CANCHEK CORPORATION

SEPTEMBER 12, 2023

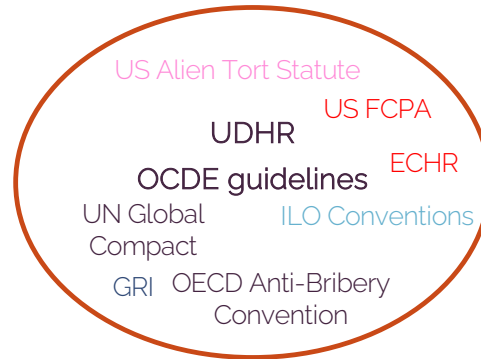
TOPICS FOR DISCUSSION

- What is the status of sustainability regulation
- How do regulators enforce compliance
- What can companies do ahead of time

REGULATORY EVOLUTION

2000

- International Soft Law
- Standards, Contracts
- Duty of Care, Case Law, Due Diligence (“devoir de vigilance”)
- Reporting requirements
- Hard Law
Draft or Proposed
Legislation

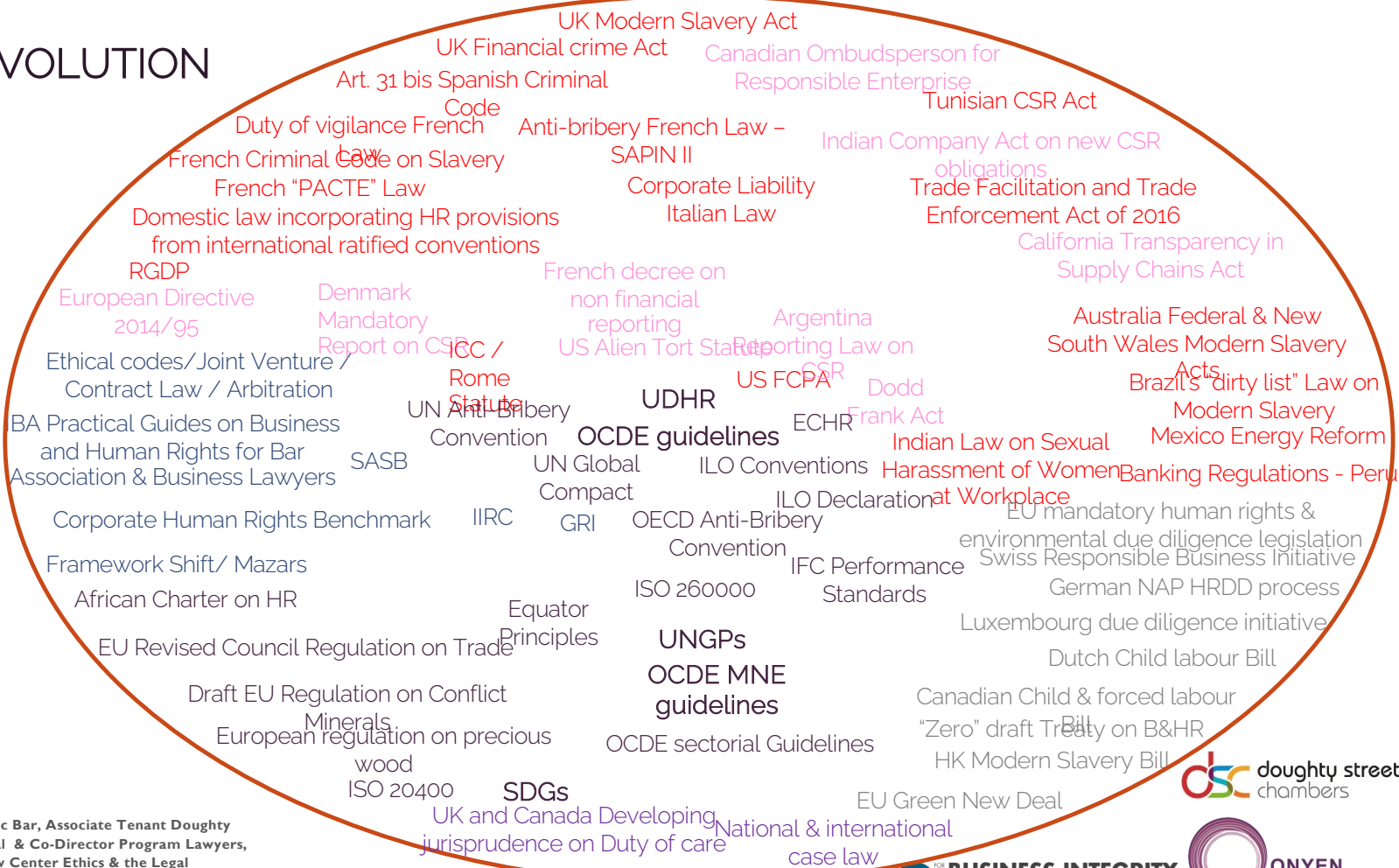


Source: Elise Groulx, Lawyer at Paris Bar & Quebec Bar, Associate Tenant Doughty Street Chambers, BI for Business Integrity Principal & Co-Director Program Lawyers, Business and Human Rights, Georgetown Univ. Law Center Ethics & the Legal Profession and Eve Tessera, Lawyer at Paris Bar & Verona Bar; Onyen Corporation

REGULATORY EVOLUTION

2020

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- Standards, Contracts
- Duty of Care, Case Law, Due Diligence ("devoir de vigilance")
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Draft or Proposed Legislation



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REGULATION AND REGULATORS

- Drive towards common reporting standards (ISSB/GRI)
- Costs - does anybody care?
- Regulatory competition - no one wants to be left behind!
- Proposal comments - do they help?
- Administration - reification of soft law into hard standards
 - Audit
 - Enforcement



ENFORCEMENT

DIRECT (hard law/push):

- This is what you have to do
- Consequence of non-compliance is enforcement (civil, regulatory, criminal)

INDIRECT (soft law/push)

- Relies on pressure from other actors
- Direction of investment dollars
- Customer pressure

YOUR RULES ARE THE RULES



UNITED STATES REGULATION

Securities and Exchange Commission (SEC)	<ul style="list-style-type: none">• Disclosure to investors to enable better investment risk assessment;• Proposed new disclosure rules: financial statements, attestation• Greenhouse gas emissions: direct (Scope 1), from purchased energy (Scope 2), upstream and downstream value chain (Scope 3)• Timing - October 2023 (?)
National Stability Oversight Council (FSOC)	<ul style="list-style-type: none">• Heads of Treasury, SEC, Federal Reserve Board, OCC
NAIC	<ul style="list-style-type: none">• Climate risk disclosure for insurance companies

- Largely regulatory
- Enforcement: Regulatory actions for incomplete or misleading disclosure
Shareholder litigation

EU REGULATION

Non-financial Reporting Directive (NFRD)	<ul style="list-style-type: none">• Reporting on ESG - environment, social, anti-bribery and anti-corruption, diversity, and human rights issues (2014)
EU Climate Benchmarks Regulation	<ul style="list-style-type: none">• Benchmark methodologies to provide investors with clarity on the environmental sustainability of their investments (2019)
Sustainability Financial Disclosures Regulation (SFDR)	<ul style="list-style-type: none">• Increase transparency by capital market participants on sustainability risks (2019 -2024)
Taxonomy Regulation	<ul style="list-style-type: none">• Harmonized taxonomy to classify financial products as sustainable (2020)
Corporate Sustainability Reporting Directive (CSRD)	<ul style="list-style-type: none">• Extends scope of companies affected to all large companies listed on regulated markets; external auditing of ESG reports; mandatory ESG
Corporate Sustainability Due Diligence Directive	<ul style="list-style-type: none">• Corporate due diligence duty for companies to end, prevent, mitigate, or account for negative ESG impacts in their own operations;• Integrate of due diligence into risk management and corporate strategy; Due diligence obligation on directors rejected by EU Council (2024)

CANADIAN REGULATION

- **CSA: Proposed National Instrument 51-107: Disclosure of Climate-related Matters**
 - Replaces previous guidance (Staff Notice 51-333: *Environmental Reporting Guidance* - 2010) with mandatory disclosures in public filing
 - Adopts Task Force on Climate-Related Financial Disclosures (TCFD) framework
 - Governance, strategy, risk management, metrics and targets
 - Scope 1, 2 and 3 GHG, or reasons for not disclosing; GHG Protocol or how standard used is comparable to the GHG Protocol
- **OSFI Guideline B-15 (2023)**
 - Applies to all FRFI's except foreign bank branches in Canada
 - Coverage:
 - Physical risks from climate-related extreme weather events
 - Transition risk related to adjustment to new government policies
 - Liability
 - Implementation
 - Management and mitigate climate-related risks in accordance with the institution's risk appetite framework
 - Climate scenario analysis to assess risk impacts (TCFD, but not included in CSA Proposal)
 - Capital and liquidity buffers for related risks

AUSTRALIAN REGULATION

- National Greenhouse and Energy Reporting Act 2007
- Climate Change Act 2022
- Australian Sustainable Finance Initiative
- Responsible Investment Association of Australasia

SOUTH AMERICAN REGULATION

IBA October 2022 Report:

“However, in this global economy, regional distinctions tend to become negligible with time, as financial players and stakeholders seek to participate in global trends. This universal movement towards standardised regulations and principles shakes law practices in both the public and private sector, and law professionals are forced to integrate ESG concerns and opportunities into their service framework. In Latin America specifically, ESG discussion is directly reactive to EU and North American development, which creates unique challenges to overcome...”

We believe ESG integration is no longer optional in the global business development agenda. All public and private players must pay attention to the ESG discussions in order to create a form of economic development that is sustainable and compatible with the market’s new demands.”



OTHER NON-REGULATORY DEVELOPMENTS

Mergers and Acquisitions:

- Recent survey in Canada found only initial inroads into M&A decision making and information circular discussions and disclosures

Lending Practices:

- Natwest survey of debt investors found more than half had made a commitment to reach net zero emissions goals across their portfolios, about equal to counterparts in the U.K.

Green-hushing:

- Reduced public visibility in the face of political pushback

THE BURDEN OF COMPLIANCE SITS WITH ISSUERS AND FINANCIERS

Build a business case for timely adoption

- Lateral thinking (outside the box)
- Start aggregating disclosures early
- Identify regulatory changes in jurisdictions you do business and export
- Budget time and resources (human and financial) to align to expected disclosures
- Use results beyond reporting: regulation can identify blind spots for businesses
- Pay attention to stakeholders - upstream and downstream value chain; investors (current and potential)
- KYA (know your advisors)





THE ESG REPORTING MADE EASY

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For a demo of the **ONYEN** ESG reporting system
contact sales@onyen.com