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Environmental Reporting Guidance: CSA Staff Notice 51-333

What does it mean, why does it matter and where do you go from here?

Increasing the transparency and quality of environmental disclosures

On October 27, 2010, the Canadian Securities Administrators issued CSA Staff Notice 51-333, Environmental Reporting Guidance ("the Guidance"). The result of a multi-stakeholder development process, the Guidance provides report issuers with important insights into environmental disclosure and compliance requirements. The release of this Guidance is a clear signal to report issuers: effective disclosure on environmental matters is a mandate, not an option. You have a responsibility to clearly, consistently and comprehensively communicate meaningful information with respect to:

- Environmental risks and related matters;
- Environmental risk oversight and management;
- Forward-looking information (e.g., goals and targets); and
- Disclosure of environmental accounting matters (e.g., liabilities and obligations).

Expectations and requirements governing environmental disclosures are not new; the existing National Instrument 51-102 Continuous Disclosure Obligations set forth the main disclosure requirements. However, the ongoing release of generic, "boilerplate" environmental disclosures by many report issuers led the OSC to issue Staff Notice 51-716 in 2008. This put report issuers on notice – changes were needed to ensure that environmental disclosures were consistently sufficient and credible. In December 2009, the OSC issued a follow-on notice (51-717), affirming their commitment to improving issuers' corporate governance and environmental disclosures. Staff notice 51-333, the Guidance, provides the next step in this ongoing improvement process.

What's new in the Guidance and how can it help you?

Delivering insight and examples on specific environmental disclosure requirements, the Guidance is designed to clarify what information must be included. If you are a report issuer, the expectation is clear: understand your organization's material environmental issues, and report on them in a meaningful way across all necessary disclosure channels. It's important to note, however, that the Guidance is intended to help organizations, not hinder them. Valerie Chort, Partner and National Leader of Deloitte's Sustainability & Climate Change Practice, notes that "as a member of the OSC environmental reporting advisory committee that led the development of the Guidance, there was a clear need for substantive clarity in the marketplace – clarity that would guide report issuers toward a higher level of environmental disclosure consistent with the evolving nature of environmental matters." The Guidance should, in fact, help shareholders, investors and customers make better investment and purchasing decisions by improving the quality and breadth of key environmental information.

The Guidance addresses the following disclosure topics:

- **Risks and related matters**
  - Environmental risk identification and impact (litigation, physical, regulatory, reputational and business model risks);
  - Trends and uncertainties (how future prospects or business value may be affected by future environmental conditions);
  - Environmental liabilities (present and future legal obligations stemming from corporate interactions with the environment, both specifically reflected and not reflected in financial statements);
  - Asset retirement obligations (quantification and robust disclosure of AROs); and
  - Environmental protection requirements (financial and operational impacts of environmental protection expenditures).

- **Risk oversight and management**
  - Environmental policies fundamental to operations (disclosure of policies in the broadest sense, including sustainable development policies and environmental management policies); and
  - Board management and audit committees' responsibility for environmental risk management (disclosure of risk governing structures and responsibilities).

- **Forward-looking information (FLI) requirements**
  - The importance of setting future environmental targets that are material to report issuers and also in compliance with National Instrument 51-102, even if not part of mandatory disclosure channels (e.g., voluntary reports and website information).

- **Impacts of International Financial Reporting Standards (IFRS)**
  - Key differences in environmental disclosure between Canadian GAAP and IFRS, including the determination of provision existence, thresholds for recognition, determination of accrual amounts and requirements for note disclosure.

What should you do next?

Risks and related matters	Environmental risk identification and impact	• Do you understand the definition of materiality in the context of environmental matters? • What material environmental risks do you need to assess? • Which ones do you need to disclose?
	Trends and uncertainties	• What impacts do environmental risks have on the outlook of your company? • Will future environmental trends and uncertainties affect your company's revenues, expenses, cash flows or financial position? • How reliable are your future estimates?
	Environmental liabilities	• Can you distinguish between environmental liabilities already disclosed in the financial statements and those that are not? • Do you have the ability to assess disclosure requirements for those not reflected in the financial statements? • How do you track such disclosures if not in your financial statements?
	Asset retirement obligations (AROs)	• Do you provide any ARO discussion in your Management Disclosure & Analysis (MD&A)? • How comprehensive is your ARO disclosure in the MD&A? • Does it sufficiently recognize future costs that may vary according to geography or jurisdiction?
	Environmental protection	• Do you sufficiently disclose the financial and operational effects of environmental protection requirements? • Have you considered future operational and financial requirements? • Have you considered how such expenditures may affect future financial performance?

Risk oversight and management	Environmental policies	• What systems and policies exist to manage corporate environmental matters? • Do they effectively allow you to assess operational impacts/mitigate environmental risks?
	Board management and audit committees	• What role do your Board of Directors and audit committee play in managing environmental matters? • What mandate exists for environmental management accountability and responsibility? • What controls exist to ensure the quality of environmental disclosure?

Forward-looking information	Material forward-looking information (FLI)	• Is your FLI relating to environmental matters discussed in both continuous disclosure and voluntary documents? • Are such disclosures material? • If material, do they comply with National Instrument 51-102, part 4A and 4B?

International Financial Reporting Standards (IFRS)	Impacts of International Financial Reporting Standards (IFRS)	• What impact will the IFRS changeover have on recognition of environmental and related provisions? • How will disclosures be affected regarding these environmental liabilities? • Have you considered the impacts of IFRS conversion on FLI goals and targets?

Addressing the recommendations in CSA Staff Notice 51-333 is not necessarily straightforward, but you can simplify the process by adopting a three-phase approach: prepare, implement and govern.

1 Prepare

Effective environmental disclosure requires that you understand what is important and how to communicate it. You can prepare by taking two key actions:

Understand materiality

The concept of materiality and associated thresholds on environmental aspects is crucial. From a purely financial accounting perspective, the concept of materiality is based on financial statement metrics. It gets murky, however, when we apply materiality to the subject of "environmental impacts." Trying to quantify known environmental concerns in financial terms is only part of the solution – you also need to know that you have identified all material environmental concerns in the first place. Understanding the comprehensive suite of shareholder and stakeholder concerns, identifying which of those are truly material and translating them into operational and financial impacts are necessary steps in distinguishing between generic/irrelevant risks and those that truly affect business value.

Develop a disclosure strategy

It is clear that organizations require a comprehensive continuous disclosure strategy – one that considers both mandatory and voluntary disclosures – to meet all stakeholder needs, not just those of the OSC or other regulatory agencies. You must also ensure that environmental disclosure aligns with broader sustainability, corporate responsibility and corporate ESG (Environmental, Social, Governance) disclosures so that all corporate messaging is well-coordinated. This will help avoid the possible misrepresentation and conflict of information within today's complex communication vehicles.

2 Implement

Clear and consistent environmental disclosure requires you to manage communications systematically across all corporate channels. To accomplish this, leading companies focus on three primary actions:

Maintain risk discipline

Robust environmental management requires disciplined enterprise risk thinking. Leading companies apply a comprehensive enterprise risk management framework to identify, assess and control environmental risks. The use of common risk language across the company is essential. Developing appropriate risk appetites and tolerance, as well as consequence and likelihood scales, will help ensure material environmental considerations are not overlooked and are assessed and reported consistently.

Use foresight

Effective environmental disclosure must consider future environmental conditions and corporate impacts. You need to look beyond short-term events, translating longer-term and macro-level trends into meaningful financial and operational concerns. You must also account for uncertain future conditions – this may require a systematic approach to risk identification and impact assessment. Scenario planning and sensitivity analyses can help you recognize when environmental matters may affect future performance, accounting for factors such as your ability to derive revenue from future products and services, as well as to manage utility costs and maintain future asset values under changing economic and environmental conditions.

Create consistency

Investors often look beyond continuous disclosure documents for decision-making information. As such, companies must ensure disclosure consistency across all mandatory and voluntary reporting channels. Obviously, financial reports (MD&A, Annual Report, AIF), voluntary reports, survey responses, websites and even marketing materials need to prevent material misrepresentations of corporate environmental information. But meaningful information also requires sufficient and consistent explanation of the environmental context under which the company operates. Examining all disclosure channels, and implementing appropriate ESG reporting systems in alignment with financial reporting systems, can help achieve this consistency across the company.

3
Govern

Making sure that what is communicated is accurate, relevant and timely requires strong disclosure governance. Two key actions can help achieve this goal:

Demand oversight

To manage and disclose environmental matters appropriately, you need board-level commitment. Think holistically about how to hold board committees accountable – with the support of executives and department heads – for effective and credible environmental disclosure and risk management. Integrate appropriate responsibilities into existing governance and certification processes. Further, environmental governance roles and responsibilities should exist across all levels of the organization, right down to front-line staff, since that is where operational impacts are often first felt.

Ensure reliability

Unlike financial statements, which are audited annually, quality and reliability reviews of published ESG information are not yet required under any regulatory framework. However, with the increasing integration of financial and voluntary disclosure, it becomes even more important for companies to disclose environmental information based on reliable, high-quality data as well as effective process and IT controls. The use of both internal and external audit mechanisms for environmental disclosure is becoming increasingly necessary, just as it is for traditional financial disclosure.

From value protection to value creation

As the connection between environmental stewardship and corporate performance becomes clear, expectations for effective environmental disclosure have also been clarified: the use of footnotes and boilerplate messaging is simply not sufficient. Sophisticated stakeholders can easily differentiate between those simply complying with the letter of the law and those looking to distinguish their companies through value-add ESG disclosure. With the release of the Guidance, companies know exactly what types of environmental information they need to disclose; the challenge is determining exactly what information and how much.

As a member of the OSC's environmental reporting advisory committee, and contributor to other CSA and OSC standards and notices, Deloitte leverages unique insight into regulatory expectations for effective environmental reporting. We can help you establish comprehensive environmental governance and risk frameworks, work through materiality assessments, account for the impacts of environmental concerns and implement effective process and system controls. Our sustainability, audit, and enterprise risk practitioners work together to help you plan and deliver effective environmental disclosure strategies and processes. You know it has to be done – now you know where to start.

The pressure for enhanced reporting and disclosure is not going away, but an effective corporate response delivers inherent business value. Smart companies that build effective disclosure into their existing processes will reap the rewards, not only internally through increased operational efficiency, but externally through enhanced brand and reputation, as well as the business value generated for shareholders and investors.

Valerie Chort, Deloitte Partner and National Leader, Sustainability & Climate Change

Deloitte can help.

To learn more, please contact:

Valerie Chort
Partner and National Leader
Sustainability & Climate Change
416-601-6147

Johanne Gelinas
Partner
Sustainability & Climate Change
514-393-5408

Pat Concessi
Partner
Sustainability & Climate Change
403-503-1448

John Muffolini
Partner
Audit
416-643-8450

Karen Higgins
Partner
Audit
416-601-6238

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