KPMG

Toronto and Region Conservation Authority

Audit Findings Report for the year ended December 31, 2023

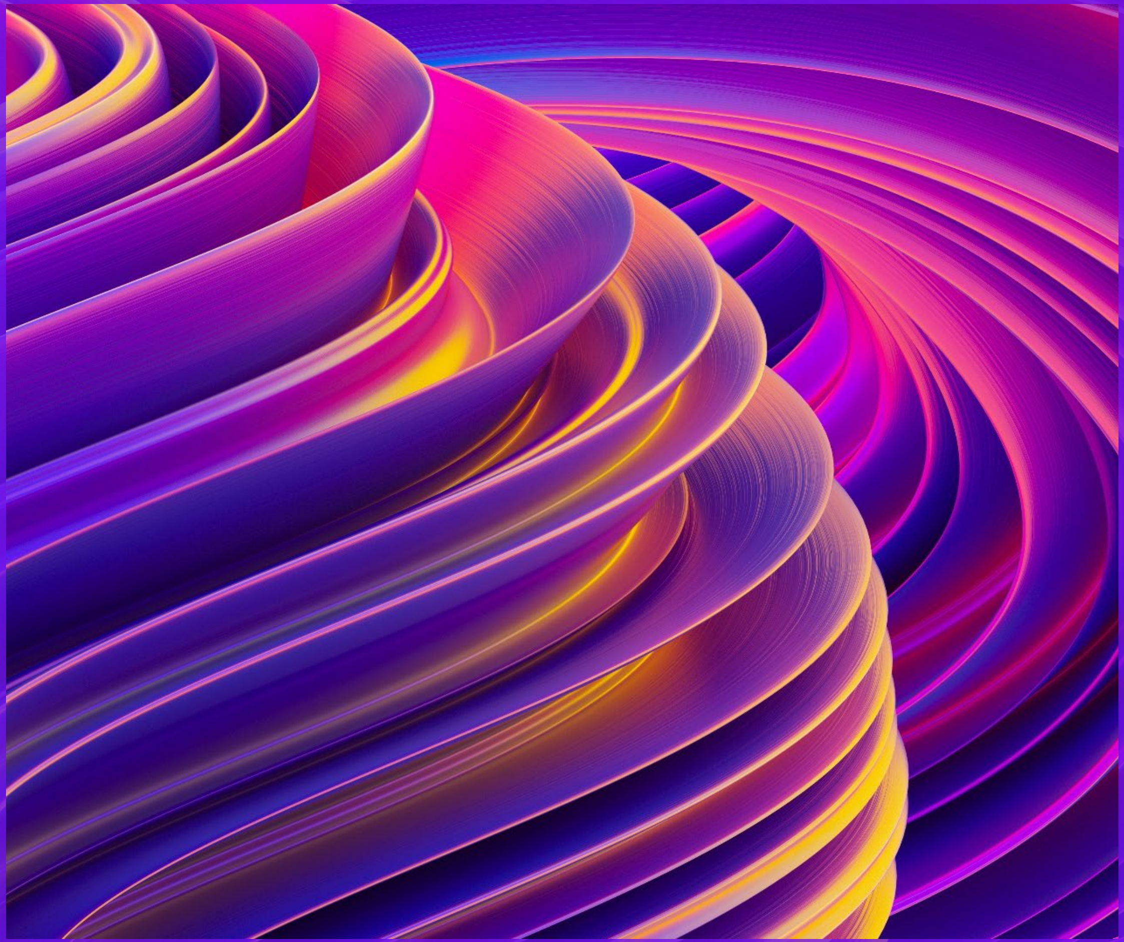
KPMG LLP

Licensed Public Accountants

Prepared on May 21, 2024

Presentation on June 7, 2024

kpmg.ca/audit



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The purpose of this report is to assist you, as a member of the Board of Directors, in your review of the results of our audit of the financial statements. This report is intended solely for the information and use of Management, and the Board of Directors and should not be used for any other purpose or any other party. KPMG shall have no responsibility or liability for loss or damages or claims, if any, to or by any third party as this report has not been prepared for, and is not intended for, and should not be used by, any third party or for any other purpose.

Digital use information

This Audit Findings Report is also available as a “hyper-linked” PDF document.

If you are reading in electronic form (e.g. In “Adobe Reader” or “Board Books”), clicking on the home symbol on the top right corner will bring you back to this slide.

Click on any item in the table of contents to navigate to that section.

Audit highlights

No matters to report

Matters to report – see link for details

Status

We have completed the audit of the financial statements ("financial statements"), with the exception of certain remaining outstanding procedures, which are highlighted on slide 5 of this report.

Significant changes

Significant changes since our audit plan

Risks and results

Significant risks

Other risks of material misstatement

Going concern matters

Policies and practices & Specific topics

Significant unusual transactions

Accounting policies and practices

Other financial reporting matters

Specific topics

Uncorrected misstatements

Uncorrected misstatements

Corrected misstatements

Corrected misstatements

Control deficiencies

Significant deficiencies

We did not identify any control deficiencies that we determined to be significant deficiencies in internal control over financial reporting.

Status

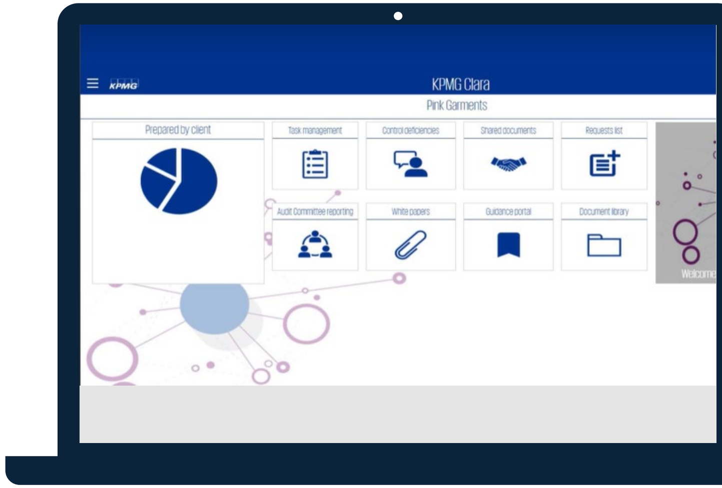
As of the date of this report, we have completed the audit of the financial statements, with the exception of certain remaining procedures, which include amongst others:

- Completing our discussions with the Committee
- Obtaining evidence of the Board of Director's approval of the financial statements
- Receipt of the signed management representation letter (dated upon Board approval of the financial statements)
- Completion of subsequent events procedures, up to the date of approval of the financial statements
- Receipt of legal confirmations
- Outstanding substantive testing of asset retirement obligations, and TCA

We will update the Committee, and not solely the Chair, on significant matters, if any, arising from the completion of the audit, including the completion of the above procedures.

Our auditor's report will be dated upon the completion of any remaining procedures.

KPMG Clara for Clients (KCfc)

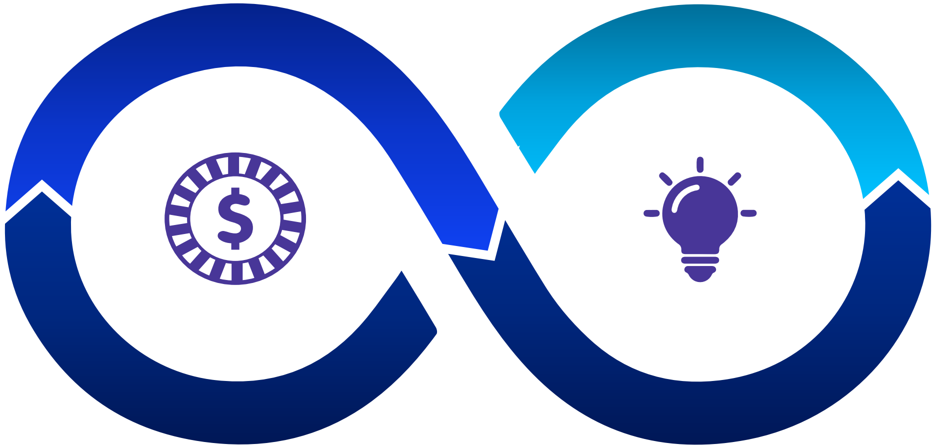


Real-time collaboration and transparency

We leveraged **KCfc** to facilitate real-time collaboration with management and provide visual insights into the status of the audit!

Learn more

Materiality



We ***initially determine materiality*** at a level at which we consider that misstatements could reasonably be expected to influence the economic decisions of users. Determining materiality is a matter of ***professional judgement,*** considering both quantitative and qualitative factors, and is affected by our perception of the common financial information needs of users of the financial statements as a group. We do not consider the possible effect of misstatements on specific individual users, whose needs may vary widely.

We ***reassess materiality*** throughout the audit and revise materiality if we become aware of information that would have caused us to determine a different materiality level initially.

Plan and perform the audit

We ***initially determine materiality*** to provide a basis for:

- Determining the nature, timing and extent of risk assessment procedures;
- Identifying and assessing the risks of material misstatement; and
- Determining the nature, timing, and extent of further audit procedures.

We design our procedures to detect misstatements at a level less than materiality in individual accounts and disclosures, to reduce to an appropriately low level the probability that the aggregate of uncorrected and undetected misstatements exceeds materiality for the financial statements as a whole.

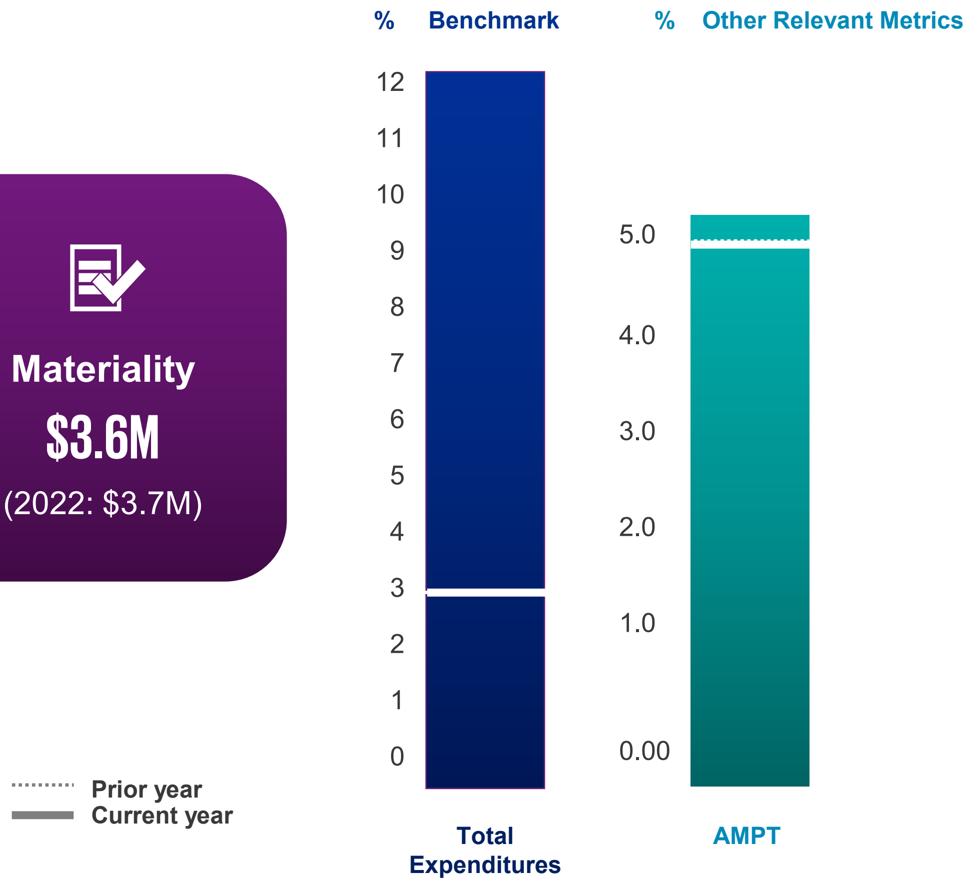
Evaluate the effect of misstatements

We also use materiality to evaluate the effect of:

- Identified misstatements on our audit; and
- Uncorrected misstatements, if any, on the financial statements and in forming our opinion.

Materiality

Materiality
$3.6M
(2022: $3.7M)



Total Expenditures
$124.2M
(2022: $131.4M)

Audit Misstatement Posting Threshold
$180,000
(2022: $185,300)

Significant risks and results

We highlight our significant findings in respect of **significant risk.**

Management Override of Controls

RISK OF
FRAUD

Significant risk

Presumption of the risk of fraud resulting from management override of controls

Management is in a unique position to perpetrate fraud because of its ability to manipulate accounting records and prepare fraudulent financial statements by overriding controls that otherwise appear to be operating effectively. Although the level of risk of management override of controls will vary from entity to entity, the risk nevertheless is present in all entities.

Our response

As this presumed risk of material misstatement due to fraud is not rebuttable, our audit methodology incorporates the required procedures in professional standards to address this risk. These procedures include:

- testing of journal entries and other adjustments,
- performing a retrospective review of estimates
- evaluating the business rationale of significant unusual transactions.

Significant findings

- We did not note any significant control deficiencies in our evaluation of the design and implementation and test operating effectiveness of selected relevant controls over financial reporting.
- We tested manual and automated journal entries and other adjustments by using Data & Analytics routines. Using extractions from the complete general ledger, we selected a sample of journal entries meeting pre-determined high-risk criteria and verified if they were supported by proper documentation and appropriately recorded in the general ledger. We also followed the journal entry initiation and approval controls and process in place.
- We did not identify any issues or concerns after performing our review of estimates.
- We did not identify any significant unusual transactions or any specific additional risks of management override during our audit.

Other risks and results

Asset Retirement Obligations

Background

- The new standard PS 3280 Asset retirement obligations (“ARO”) came into effect for fiscal year ended on December 31, 2023.
- The new standard addresses the recognition, measurement, presentation and disclosure of legal obligations associated with retirement of tangible capital assets. Retirement costs are then recognized as an integral cost of owning and operating tangible capital assets.
- The new ARO standard requires the public sector entity to record a liability related to future costs of any legal obligations to be incurred upon retirement of any controlled tangible capital assets (“TCA”). The amount of the initial liability will be added to the historical cost of the asset and amortized over its useful life if t he asset is in productive use.
- The assessment of these future legal obligations requires management to perform a comprehensive analysis of controlled assets, a long with the development of estimates to evaluate an estimated liability at the financial reporting dates of December 31, 2023 and December 31, 2022.

Our response and findings

- TRCA has adopted the modified retroactive approach, which entails a recognition of the ARO liability as at January 1 2022
- TRCA recognized $1,236K in its 2022 and 2023 statements for the asset retirement obligation liability with a corresponding entry made to the TCA account and also recorded a $442K adjustment to the unrestricted surplus for comparative results in 2022 in compliance with the adoption of the ARO based on the requirements of the modified retroactive approach
- We obtained the TRCA’s ARO implementation memo and performed a review to ascertain their alignment with the requirements of the PS 3280. We performed an assessment of the reasonableness of the TRCA’s scoping decisions and the rationale for excluding certain TCA items to determine whether they are in compliance with standard guidelines and general practice across industry
- We obtained TRCA’s ARO model assessment and performed the following procedures:
    - We reviewed the TRCA’s ARO model and performed an assessment of the mathematical accuracy and related calculations of ARO liability
    - We obtained an understanding of significant assumptions made in the development of the ARO model and evaluated these assumptions for their reasonableness
    - We reviewed the completeness of asset scoped in for ARO liability purposes
    - We conducted meetings with significant internal subject matter expects involved in the ARO model development to evaluate their extent of involvement, area of expertise and relevant skills and capabilities We assessed the qualifications, competence and objectivity of these internal experts as required by the Canadian auditing standards
    - We assessed the disclosures in the financial statements against the requirements of the PS 3280 to ensure disclosures are in accordance with PS 3280

Other risks and results

Asset Retirement Obligations

Our response and findings (continued)

Substantive testing and findings

- We reviewed the cost per square foot analysis for asbestos, as developed by management’s specialist, and verified inputs against supporting documentation to ensure reasonable and accurate cost was applied to all in scope assets in the ARO model. For any inputs that incorporated significant assumptions, we evaluated the reasonableness of these assumptions and compared to external sources or general industry practice.

- We selected samples of in-scope assets where measurement of ARO had been calculated and agreed to relevant inputs and supporting documentation. We agreed square feet to provided by TRCA to independent supporting documentation to ensure accuracy of the square footage= used in the measurement estimate of the asset retirement obligation.

- At the date of this report, KPMG is still conducting this substantive procedure and has no findings yet to report

Other risks and results

PS 3450 – Financial Instruments

Background

Under PS 3450, financial instruments are included on the Statement of Financial Position and are measured either at fair value or amortized cost based on the characteristics of the instrument and the organization's accounting policy choices. PS 3450 requires mandatory fair value reporting for equities and derivatives whereas for all other investments, an election is available for entities to choose between amortized cost and fair value.

For items that are reported at fair value, the unrealized gains and losses are required to be reported on a new statement called Statement of Remeasurement Gains and Losses.

Other new standards coming into effect starting fiscal 2023 include PS2601 Foreign Currency Translation , PS 1201 Financial Statement Presentation, PS 3041 Portfolio Investments . These other standards are required to be adopted concurrently with PS 3450 Financial Instruments

Our response and findings

- We noted that financial instruments for TRCA other than equities are recorded at amortized cost. These financial instruments do not require mandatory fair value reporting as per PS 3450 Financial Instruments. Further, TRCA has not elected to report any financial instruments at fair value.
- A statement of remeasurement gains and losses has been added to the financial statements. During the year, TRCA recorded a closing net loss of $1,789 (2022 - nil) tracked in TRCA's statement of remeasurement gains and losses.
- TRCA has added additional disclosures related to the financial risks associated with their financial instruments as required by PS 3450 Financial=Instruments.
- The measurement, recognition and presentation of balances impacted by this new standard are in accordance with the requirement of PS 3450 Financial Instruments.

Other risks and results

Cash and investments

Significant findings

- We confirmed cash balances at year end with the bank.
- We reviewed the year end bank reconciliations for all accounts, vouching significant items to supporting documentation.
- We confirmed the investment balances at year end with the banks.
- We performed substantive analytical procedures on investment income and gains/losses on investments.
- We reviewed the carrying value of investments in comparison with their fair value to assess if an impairment charge is required.
- We reviewed the Authority's compliance with the Investment policy. As at December 31, 2023, the Authority was in compliance with all policies.
- Reviewed presentation and disclosure
- No issues noted

Revenue, Deferred Revenue, and Accounts Receivable

Significant findings

- We tested each revenue stream by vouching revenue items to source documentation on a sample basis:
  - We tested a sample of deferred revenue receipt and release transactions and agreed to supporting documentation.
  - We tested a sample of government funding and authority generated revenue by agreeing to supporting documentation.
  - We agreed municipal levies revenues to approved budgeted amounts and to payment receipts.
- We performed testing over the completeness of revenue by reviewing a sample of transactions at the end of 2023 and the beginning of 2024 to assess whether they were recorded in the correct period.
- For all revenue sources, we reviewed the Authority's revenue recognition policy in accordance with appropriate PSAB standards.
- We reviewed accounts receivable sub-ledgers for credit balances, unusual amounts, and aged balances, and we vouched a sample of balances to supporting documentation including payment receipt.
- We obtained a confirmation from the Toronto and Region Conservation Foundation with respect to amounts owing to the Authority.
- Reviewed presentation and disclosure
- No issues noted

Other risks and results

Compensation expense and vacation pay entitlements

Significant findings

- We obtained an understanding of the processes surrounding payroll.
- We performed substantive analytical procedures over compensation expenses and substantively tested employee headcount for existence and completeness.
- We tested significant payroll accruals as at year-end by agreeing to payroll registers and payment subsequent to year-end.
- We reviewed the listing of employee vacation accruals and tested on a sample basis by agreeing to employee files and reviewing the maximum allowable carry-forward amounts in accordance with the Authority’s policies.
- Reviewed presentation and disclosure
- No issues noted

Tangible capital assets

Significant findings

- We tested a sample of additions to tangible capital assets and work-in-progress and agreed each sample to supporting documentation.
- We tested a sample of transfer of tangible capital assets out of the work in progress account and agreed to sufficient appropriate evidence that the asset was completed and put into use.
- We performed substantive analytical procedures over amortization of tangible capital assets.
- We tested a sample of disposals and agreed to board minutes authorizing significant dispositions.
- Reviewed presentation and disclosure
- No issues noted

Other risks and results

Expenses, payables and accrued liabilities

Significant findings

- We selected a sample of expense transactions and agreed to supporting invoices to assess accuracy of amounts recorded and their classification.
- We reviewed supporting documentation for significant accruals.
- We performed a trend analysis and actual version budget of expenses and reviewed significant variances with management
- We performed a search for unrecorded liabilities to assess the completeness of liabilities.
- We held inquiries with management, reviewed Board minutes, and reviewed all legal correspondence during the fiscal year to evaluate potential legal liabilities and contingencies. To assess the existence and completeness of liabilities, we obtained a legal confirmation letter from the Authority's legal counsel.
- Reviewed presentation and disclosure
- No issues noted

Derivative financial instrument

Significant findings

- Management recorded fair value of derivative contract according to amount calculated by their bank. We confirmed the recorded fair value of the derivative contract with the bank.
- Engaged KPMG specialists to complete an independent valuation of the derivative contract
- Reviewed presentation and disclosure

Control deficiencies

Consideration of internal control over financial reporting (ICFR)

In planning and performing our audit, we considered ICFR relevant to the Entity’s preparation of the financial statements in order to design audit procedures that are appropriate in the circumstances for the purpose of expressing an opinion on the financial statements, but not for the purpose of expressing an opinion on ICFR.

Our understanding of internal control over financial reporting was for the limited purpose described above and was not designed to identify all control deficiencies that might be significant deficiencies. The matters being reported are limited to those deficiencies that we have identified during the audit that we have concluded are of sufficient importance to merit being reported to those charged with governance.

Our awareness of control deficiencies varies with each audit and is influenced by the nature, timing, and extent of audit procedures performed, as well as other factors. Had we performed more extensive procedures on internal control over financial reporting, we might have identified more significant deficiencies to be reported or concluded that some of the reported significant deficiencies need not, in fact, have been reported.

A deficiency in internal control over financial reporting

A deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A deficiency in design exists when (a) a control necessary to meet the control objective is missing or (b) an existing control is not properly designed so that, even if the control operates as designed, the control objective would not be met. A deficiency in operation exists when a properly designed control does not operate as designed, or when the person performing the control does not possess the necessary authority or competence to perform the control effectively.

Significant deficiencies in internal control over financial reporting

A deficiency, or a combination of deficiencies, in internal control over financial reporting that, in our judgment, is important enough to merit the attention of those charged with governance.

No control deficiencies identified

Appendices

A Required communications

B Use of technology

C Audit quality

D New auditing standards

E Future changes in accounting standards

F Insights

G ESG

Appendix A: Other required communications

CPAB communication protocol

The reports available through the following links were published by the Canadian Public Accountability Board to inform Audit Committees and other stakeholders about the results of quality inspections conducted over the past year:

- CPAB Audit Quality Insights Report: 2022 Annual Inspections Results
- CPAB Audit Quality Insights Report: 2023 Interim Inspections Results

Required inquiries

Professional standards require that during the planning of our audit, we obtain your views on the identification and assessment of risks of material misstatement, whether due to fraud or error, your oversight over such risk assessment, identification of suspected, alleged or actual fraudulent behaviour, and any significant unusual transactions during the period. Please refer to the following inquiries:

- What are your views about fraud risk at the entity?
- How do those charged with governance exercise effective oversight of management's processes for identifying and responding to the risk of fraud in the Entity and internal controls management has established to mitigate these fraud risks?
- Are you aware of, or have you identified any, instances of actual, suspected, or alleged fraud, including misconduct or unethical behaviour related to financial reporting or misappropriation of assets? If so, have the instances been appropriately addressed and how have they been addressed?
- Is the entity in compliance with laws and regulations?
- Has the entity entered into any significant unusual transactions?

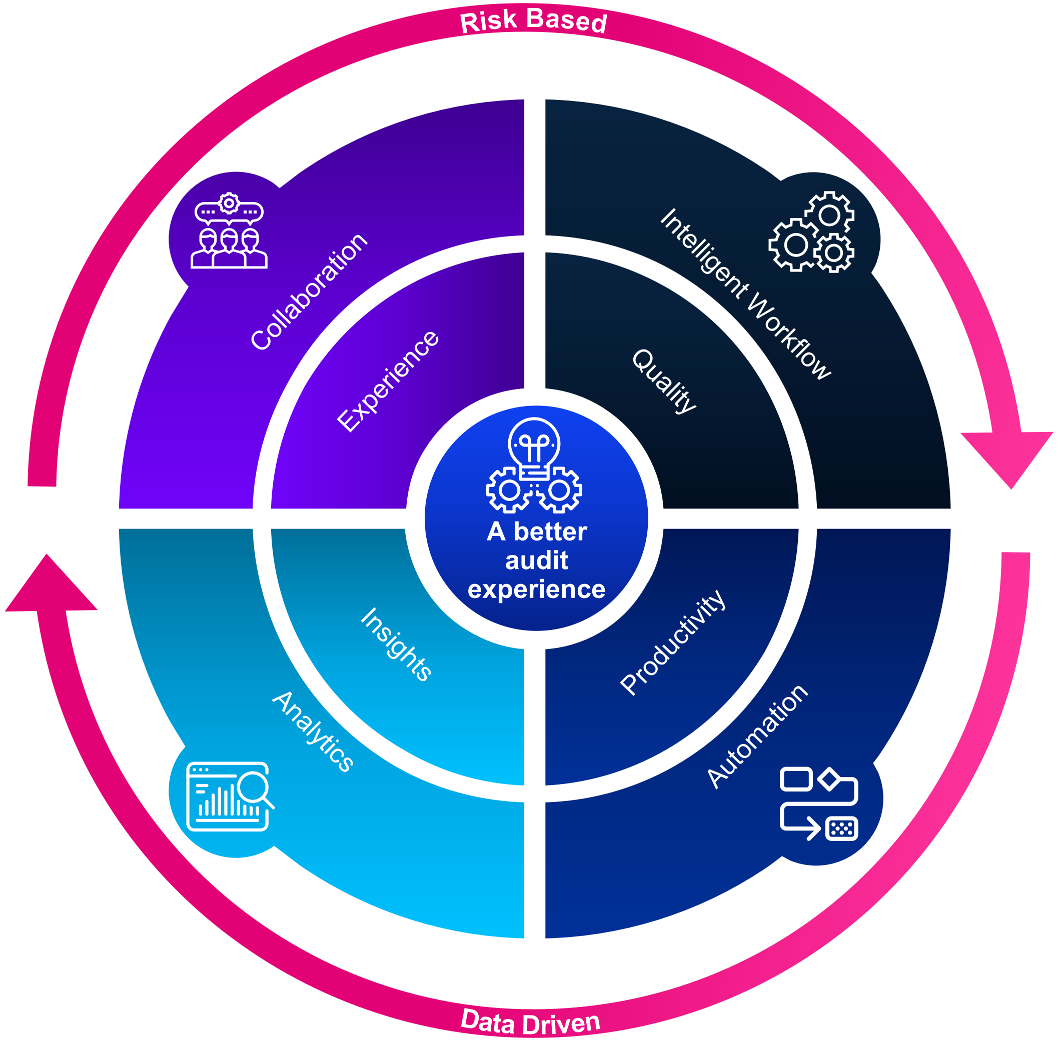
Appendix B: KPMG Clara

Streamlined client experience
And deeper insights into your business, translating to a better audit experience.

Secure
A secure client portal provides centralized, efficient coordination with your audit team.

Intelligent workflow
An intelligent workflow guides audit teams through the audit.

Increased precision
Advanced data analytics and automation facilitate a risk-based audit approach, increasing precision and reducing your burden.



Appendix C: Audit quality - How do we deliver audit quality?

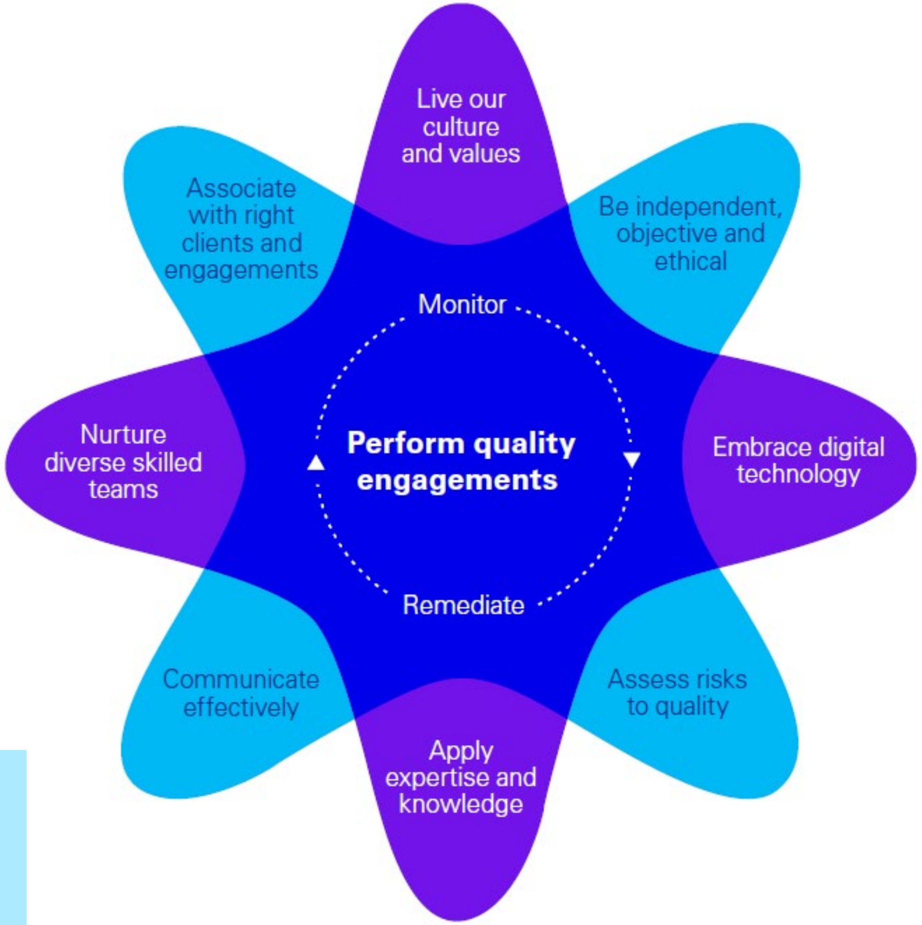
Quality essentially means doing the right thing and remains our highest priority. Our Global Quality Framework outlines how we deliver quality and how every partner and staff member contributes to its delivery.

The drivers outlined in the framework are the ten components of the KPMG System of Quality Management (SoQM). Aligned with ISQM 1/CSQM 1, our SoQM components also meet the requirements of the International Code of Ethics for Professional Accountants (including International Independence Standards) issued by the International Ethics Standards Board for Accountants (IESBA) and the relevant rules of professional conduct / code of ethics applicable to the practice of public accounting in Canada, which apply to professional services firms that perform audits of financial statements. Our Transparency Report includes our firm's Statement on the Effectiveness of our SoQM.

KPMG 2023 Audit Quality and Transparency Report

We define 'audit quality' as being the outcome when:

- audits are **executed consistently**, in line with the requirements and intent of **applicable professional standards** within a strong **system of quality management;** and
- all of our related activities are undertaken in an environment of the utmost level of **objectivity, independence, ethics** and **integrity.**



Doing the right thing. Always.

Appendix D: Newly effective and upcoming changes to auditing standards

For more information on newly effective and upcoming changes to auditing standards - see Current Developments

Effective for periods beginning on or after December 15, 2022

ISA/CAS 220

(Revised) Quality management for an audit of financial statements

ISQM1/CSQM1

Quality management for firms that perform audits or reviews of financial statements or other assurance or related services engagements

ISQM2/CSQM2

Engagement quality reviews

Effective for periods beginning on or after December 15, 2023

ISA 600/CAS 600

Revised special considerations – Audits of group financial statements

Appendix E: Changes in accounting standards

Standard	Summary and implications
Revenue	• The new standard PS 3400 *Revenue* is effective for fiscal years beginning on or after April 1, 2023 • The new standard establishes a single framework to categorize revenue to enhance the consistency of revenue recognition and its measurement. • The standard notes that in the case of revenue arising from an exchange transaction, a public sector entity must ensure the recognition of revenue aligns with the satisfaction of related performance obligations. • The standard notes that unilateral revenue arises when no performance obligations are present, and recognition occurs when there is authority to record the revenue and an event has happened that gives the public sector entity the right to the revenue.
Purchased Intangibles	• The new Public Sector Guideline 8 *Purchased intangibles* is effective for fiscal years beginning on or after April 1, 2023 with earlier adoption permitted • The guideline allows public sector entities to recognize intangibles purchased through an exchange transaction. The definition of an asset, the general recognition criteria and GAAP hierarchy are used to account for purchased intangibles. • Narrow scope amendments were made to PS 1000 *Financial statement concepts* to remove the prohibition to recognize purchased intangibles and to PS 1201 *Financial statement presentation* to remove the requirement to disclose purchased intangibles not recognized. • The guideline can be applied retroactively or prospectively.

Appendix E: Changes in accounting standards (continued)

Standard	Summary and implications
Public Private Partnerships	• The new standard PS 3160 *Public private partnerships* is effective for fiscal years beginning on or after April 1, 2023 • The standard includes new requirements for the recognition, measurement and classification of infrastructure procured through a public private partnership. • The standard notes that recognition of infrastructure by the public sector entity would occur when it controls the purpose and use of the infrastructure, when it controls access and the price, if any, charged for use, and it controls any significant interest accumulated in the infrastructure when the public private partnership ends. • The public sector entity recognizes a liability when it needs to pay cash or non-cash consideration to the private sector partner for the infrastructure. • The infrastructure would be valued at cost, which represents fair value at the date of recognition with a liability of the same amount if one exists. Cost would be measured in reference to the public private partnership process and agreement, or by discounting the expected cash flows by a discount rate that reflects the time value of money and risks specific to the project. • The standard can be applied retroactively or prospectively.
Concepts Underlying Financial Performance	• The revised conceptual framework is effective for fiscal years beginning on or after April 1, 2026 with earlier adoption permitted. • The framework provides the core concepts and objectives underlying Canadian public sector accounting standards. • The ten chapter conceptual framework defines and elaborates on the characteristics of public sector entities and their financial reporting objectives. Additional information is provided about financial statement objectives, qualitative characteristics and elements. General recognition and measurement criteria, and presentation concepts are introduced.

Appendix E: Changes in accounting standards (continued)

Standard	Summary and implications

Financial Statement Presentation	• The proposed section PS 1202 *Financial statement presentation* will replace the current section PS 1201 *Financial statement presentation*. PS 1202 *Financial statement presentation* will apply to fiscal years beginning on or after April 1, 2026 to coincide with the adoption of the revised conceptual framework. Early adoption will be permitted.
	• The proposed section includes the following:
	  • Relocation of the net debt indicator to its own statement called the statement of net financial assets/liabilities, with the calculation of net debt refined to ensure its original meaning is retained.
	  • Separating liabilities into financial liabilities and non-financial liabilities.
	  • Restructuring the statement of financial position to present total assets followed by total liabilities.
	  • Changes to common terminology used in the financial statements, including re-naming accumulated surplus (deficit) to net assets (liabilities).
	  • Removal of the statement of remeasurement gains (losses) with the information instead included on a new statement called the statement of changes in net assets (liabilities). This new statement would present the changes in each component of net assets (liabilities), including a new component called “accumulated other”.
	  • A new provision whereby an entity can use an amended budget in certain circumstances.
	  • Inclusion of disclosures related to risks and uncertainties that could affect the entity’s financial position.
	• The Public Sector Accounting Board is currently deliberating on feedback received on exposure drafts related to the reporting model.

Appendix E: Changes in accounting standards (continued)

Standard	Summary and implications
Employee benefits	• The Public Sector Accounting Board has initiated a review of sections PS 3250 *Retirement benefits* and PS 3255 *Post-employment benefits, compensated absences and termination benefits*. • The intention is to use principles from International Public Sector Accounting Standard 39 *Employee benefits* as a starting point to develop the Canadian standard. • Given the complexity of issues involved and potential implications of any changes that may arise from the review of the existing guidance, the new standards will be implemented in a multi-release strategy. The first standard will provide foundational guidance. Subsequent standards will provide additional guidance on current and emerging issues. • The proposed section PS 3251 *Employee benefits* will replace the current sections PS 3250 *Retirement benefits* and PS 3255 *Post-employment benefits, compensated absences and termination benefits*. It will apply to fiscal years beginning on or after April 1, 2026. Early adoption will be permitted and guidance applied retroactively. • This proposed section would result in public sector entities recognizing the impact of revaluations of the net defined benefit liability (asset) immediately on the statement of financial position. Organizations would also assess the funding status of their post-employment benefit plans to determine the appropriate rate for discounting post-employment benefit obligations. • The Public Sector Accounting Board is in the process of evaluating comments received from stakeholders on the exposure draft.

Appendix F: Audit and assurance insights

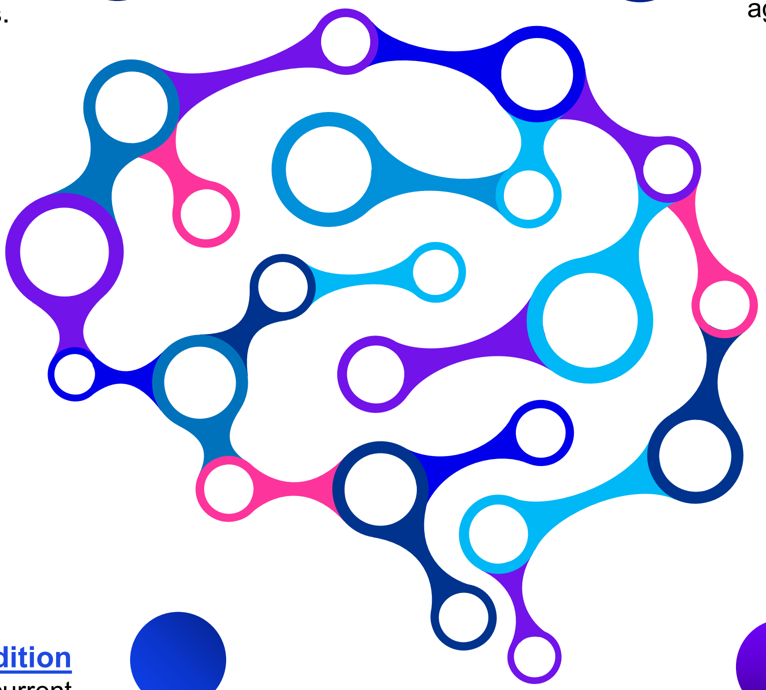
Our latest thinking on the issues that matter most to Audit Committees, board of directors and management.

KPMG Audit & Assurance Insights
Curated research and insights for audit committees and boards.

Board Leadership Centre
Leading insights to help board members maximize boardroom opportunities

Current Developments
Series of quarterly publications for Canadian businesses including Spotlight on IFRS, Canadian Securities & Auditing Matters and US Outlook reports.

Audit Committee Guide – Canadian Edition
A practical guide providing insight into current challenges and leading practices shaping audit committee effectiveness in Canada.



Accelerate 2023
The key issues driving the audit committee agenda in 2023.

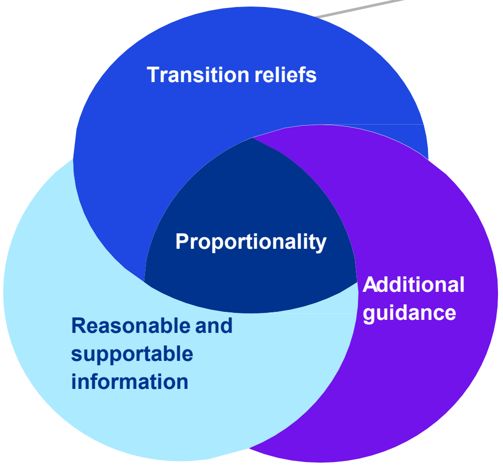
Momentum
A quarterly newsletter with the latest thought-leadership from KPMG's subject matter leaders across Canada and valuable audit resources for clients.

KPMG Climate Change Financial Reporting Resource Centre
Our climate change resource center provides insights to help you identify the potential financial statement impacts to your business.

IFRS Breaking News
A monthly Canadian newsletter that provides the latest insights on international financial reporting standards and IASB activities.

Appendix G: Suite of optional transition reliefs

In response to practical concerns, the standards allow for transition reliefs, applicable only in the first year of application



Climate-first option

Allows entities to report only on climate-related risks and opportunities

Timing of sustainability reporting

Allows entities to report sustainability-related financial disclosures after their financial statements, but by Q2 interim reporting

Disclosing scope 3 GHG emissions

Relief from disclosing scope 3 greenhouse gas (GHG) emissions

Presenting comparative information

Allows entities an additional year to report comparative information

If climate-first option is elected, only climate-related comparative information is required in the second year of application

Using the GHG Protocol

Relief from using the GHG Protocol Standards to measure greenhouse gas emissions for entities that currently use a different methodology

Appendix G: Questions to start getting ready

01

When could they affect you?

- Effective for annual reporting periods beginning on or after January 1, 2024 (pending adoption decisions in Canada)
- If not adopted, entities may still choose to adopt the standards voluntarily

02

Where will the information be disclosed?

- It depends – the standards currently do not specify a single location
- The ISSB is committed to focus on integration in reporting

03

What if you've already adopted other frameworks?

- Map how the standards differ from current frameworks used (i.e., conduct a reporting gap assessment)
- Focus on matters that affect your entity's prospects and consider what will impact an investor's assessment of those prospects
- Consider where additional data is needed

04

Will they require scenario analysis?

- Entities will need to use scenario analysis when describing their assessment of climate resilience (i.e., analyze the impact of different climate-related risks and assumptions)
- The ISSB will provide guidance on the analysis that will be appropriate for different types of entities

05

Will your reporting need assurance?

- Assurance requirements are not within the remit of the ISSB
- In Canada, regulators may choose to require assurance – similar to what has been directed in the EU and proposed by the SEC
- Regardless of regulatory assurance requirements, entities will need to ensure they have processes and controls in place to produce robust and timely information

06

What do they mean for broader sustainability reporting?

- The standards are part of an evolution from fragmented, voluntary frameworks to authoritative standard setting
- Reporting to meet public policy and other needs is likely to continue as a separate strand of reporting

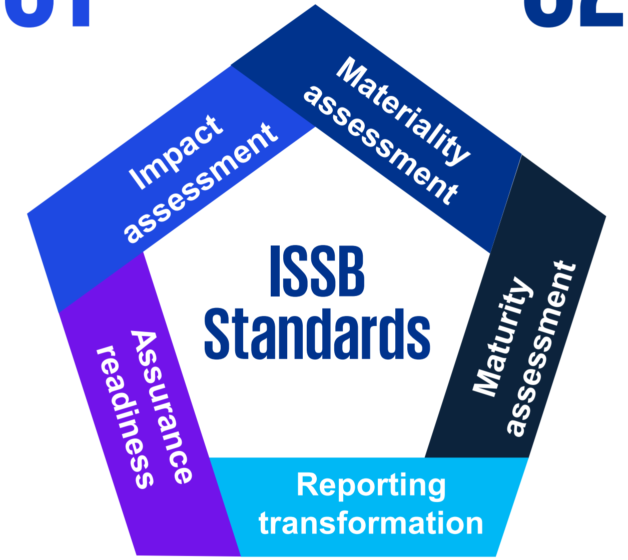
Appendix G: ESG - What do you need to do now?

01 Understand the Impact

- Research and understand current and emerging requirements
- Understand when, where and how this will impact your company

02 Determine what is material

- Determine which topics are relevant to report on
- Decide what information is material about those topics



03 Assess maturity

- Assess maturity of processes, the control environment, data model and policies related to ESG
- Understand the current distribution of roles and available knowledge and capacity

04 Transform reporting

- Design the future state of your sustainability reporting
- Deploy your target operating model, including training as well as support for change management

05 Get ready for assurance

- Assess the control environment, data quality and availability of sufficient documentation
- Undergo an assurance readiness assessment with your auditor
- Rectify issues ahead of the formal assurance process (when and if mandated in Canada).

Appendix G: Regulatory updates

Recent Activity[1,2,3]

EU (EFRAG)

- The European Financial Reporting Advisory Group (EFRAG) was mandated to develop draft European Sustainability Reporting Standards (ESRSs) setting out the detailed disclosure requirements under the CSRD
- There are considerable ESG reporting implications for non-EU based entities - scope includes non-EU entities or groups with significant operations in the EU
- In June 2023, the European Commission released a series of proposed changes to the draft ESRSs. The most significant amendments to the proposals are:
  - General disclosures under the ESRS will remain mandatory. Other ESRS disclosures will be subject to a materiality assessment;
  - Additional phase-in relief for all entities; and
  - Amendments aiming to improve interoperability with international standards and to align with other European legislation
- The EU is expected to adopt the final standards in August 2023

SEC

- Proposal published in March 2022 would require investor-focused climate disclosures
- In June 2023, the SEC released its updated regulatory agenda, which listed a final climate rule to be issued in October 2023
- The SEC's updated regulatory agenda also included various other ESG-related items, including a final rule on cybersecurity risk governance and proposals on corporate board diversity and human capital disclosures

OSFI B-15

- In March 2023, OSFI published its final guideline *B-15 Climate Risk Management*. The requirements will be effective fiscal year-end 2024 for Domestic Systemically Important Banks and Internationally Active Insurance Groups headquartered in Canada, and fiscal year-end 2025 for all other in-scope federally regulated financial institutions (FRFIs)
- FRFIs will be required to report climate-related financial disclosures no later than 180 days after fiscal year-end
- Final disclosure expectation and/or timing of implementation of OSFI-specified prudential cross-industry and industry-specific metrics to be determined at a later date
- Assurance not required at this time, but FRFIs should work towards a future state in which external assurance is expected

CSA

- Proposal published in October 2021 would require investor-focused climate disclosures
- In October 2022, the CSA stated that it continues to actively consider international developments and how they may impact or inform its proposed climate-related disclosure rule

What about the CSSB?

- The CSSB's mandate is to develop and support the adoption of international sustainability standards in Canada
- In April 2023, the CSSB's first-ever chair and initial members were appointed

1. Refer to our *US Quarterly Outlook* publication for regulatory updates on the proposed SEC climate rules
2. Refer to our publication *ESRS resource centre* for developments on the proposed ESRSs
3. Refer to our *guide* which compares the sustainability proposals issued by the ISSB, SEC and EFRAG

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