



Canadian Climate Disclosures

# Myths/Facts

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Mandatory Climate Disclosures for Canada

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# When it comes to mandatory climate disclosures in Canada, what is **fact** and what is **fiction**?

Canada has made significant progress on its sustainable finance policy framework recently. But a key piece has been long delayed: regulation requiring large public firms to report on climate-related risks and opportunities. While we wait, many jurisdictions are pressing ahead with disclosure regulations aligned with the leading international standards. This leaves Canada out of step and falling behind in the race for global climate capital at a time when political leaders are seeking new trading partners and foreign investment.

Sustainability disclosures have been well-supported by investors. However, some stakeholders have raised concerns around capacity and competitiveness at a time when U.S. federal securities regulators have cut regulations.

Clarity on the costs, benefits and impact on capital markets is required. And so, SHARE and the Institute for Sustainable Finance have collaborated to **dispel the myths** that have been dominating rhetoric around disclosures and **establish the countering facts** to reassure and inform securities regulators, policy makers, investors and issuers alike.



## Myth #1

The compliance burden is too high for companies.

## Fact

The average cost of reporting for issuers tends to be much lower than the cost to investors of collecting decision-useful climate data on their own, and most large firms are reporting on a voluntary basis already so would be well-prepared.

A 2022 study from the SustainAbility Institute by ERM found that, on average, corporate issuers are spending \$533,000 annually on climate-related disclosure, while institutional investors are spending an average of \$1,372,000 annually to collect, analyze, and report climate data to inform their investment decisions.<sup>1</sup>

Quality disclosure can *benefit* issuers by guiding better environmental performance and improved access to capital.

<sup>1</sup> <https://www.erm.com/about/news/survey-reveals-costs-and-benefits-of-climate-related-disclosure-for-companies-and-investors/>



## Myth #2

The cost is unfair for small issuers.

## Fact

Proportionality has been built into the widely accepted standards, CSDS 1 and 2, developed for the Canadian market by the Canadian Sustainability Standards Board. The standards acknowledge that larger issuers have access to more resources and longer histories with more experience. Whether the issue be cost or capacity, smaller companies are not scrutinized the same as larger companies, and specific provisions are built into the CSDS' to limit "undue cost or effort," (CSDS 2, sec. 11).<sup>2</sup>

<sup>2</sup> [https://www.frascanada.ca/en/cssb/news-listings/csds1\\_csds2\\_launch](https://www.frascanada.ca/en/cssb/news-listings/csds1_csds2_launch)



## Myth #3

Companies will be deterred from going public.

## Fact

Given the allowances for small firms discussed above, IPO firms would not be affected until they became large enough to fall in scope of the requirements.

Further, as governments consider disclosure requirements for large private firms, limited disclosure expectations in private markets may be temporary. The Canadian federal government has discussed a future amendment to the *Canada Business Corporations Act* to include climate disclosure requirements for large private companies,<sup>3</sup> and Australia already includes “large proprietary companies” in its requirements.<sup>4</sup> Whether public or private, in due course, all companies could be impacted.

<sup>3</sup> <https://ccli.ubc.ca/sustainability-and-climate-related-regulations-impacting-canadian-technology-companies/>

<sup>4</sup> <https://www.mccarthy.ca/en/insights/blogs/canadian-securities-regulatory-monitor/australia-passes-mandatory-climate-disclosure-legislation>

The background of the top half of the slide is a photograph of the New York Stock Exchange building. The image shows the classical facade with a pediment containing a relief sculpture of figures. Below the pediment, the words "NEW YORK STOCK EXCHANGE" are inscribed in gold letters. The building is supported by a row of tall, fluted columns.

## Myth #4

Companies could delist from Canadian exchanges and list in the US instead.

## Fact

Cross-listing on U.S. exchanges such as the NYSE or NASDAQ is already common among senior TSX issuers, with 206 companies, including 70% of Canada's top 60 companies, already cross-listed with the NYSE or NASDAQ.<sup>5</sup> These companies could choose to list only on U.S. exchanges, but would then lose benefits, including access to a broader investor base and increased marketability,<sup>6</sup> particularly among global investors that seek more reliable investor protections than are available under the current U.S. regulatory regime.

<sup>5</sup> <https://www.tsx.com/en/trading/market-data-and-statistics/market-statistics-and-reports/interlisted-companies>

<sup>6</sup> <https://www.bankofcanada.ca/wp-content/uploads/2010/06/chouinarde1.pdf>



## Myth #5

A flexible, *voluntary* system is better.

## Fact

A voluntary, fragmented disclosure regime creates *more* work for issuers than a standardized and consistent regime that makes Canadian firm data interoperable with global markets. Under a voluntary system, firms may be inundated with overlapping requests for sustainability data from investors, data providers and other stakeholders, especially if data formats do not allow for comparability. Inconsistent formats and takeaways make it difficult and more expensive for investors to distinguish resilient firms and price risk more accurately.<sup>7</sup>

<sup>7</sup> <https://smith.queensu.ca/centres/isf/news/ISF-Mandatory-Disclosures-announcement.php>



## Myth #6

It will make Canada uncompetitive with the U.S.

## Fact

Many countries already have more detailed requirements than Canada, with a super-majority of OECD countries already committed to mandatory disclosures. Even in the U.S., seven states are moving forward with similar requirements: California, New York State, Illinois, New Jersey, Washington, Minnesota and Colorado.

If a company chose to redomicile, they may face state-level requirements that are stricter than what is being proposed in Canada, which is already the case in California where the state-level Climate Accountability Package already has more intensive Scope 3 requirements than the CSDS and would apply to both public and private companies.<sup>8</sup>

<sup>8</sup> <https://www.hbs.edu/bigs/federal-climate-rules>



## About SHARE—the Shareholder Association for Research and Education

Using shareholder engagement, advisory services, research and education, SHARE—the Shareholder Association for Research and Education—helps investors steward their assets in ways that contribute to positive social and environmental outcomes.

Through our investor services and diverse investor initiatives, SHARE has built a network of institutional investors with more than \$148 billion in assets under management. With SHARE's support, these organizations are advocating for better corporate sustainability practices, exercising their proxy voting rights responsibly, and promoting greater transparency and accountability across capital markets.

[share.ca](https://share.ca)



## About the Institute for Sustainable Finance (ISF)

Housed at Smith School of Business at Queen's University, ISF is the first-ever cross-cutting and collaborative hub in Canada that fuses academia, the private sector and government with the singular focus of increasing Canada's sustainable finance capacity. The Institute's vision is to be Canada's most trusted source of sustainable finance knowledge, empowering policymakers and organizations to build a prosperous, environmentally and socially responsible future. Through research, education and partnerships, ISF delivers evidence-based solutions that contribute to resilient financial markets, accelerate the transition to a sustainable economy and drive lasting impact

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