



Pension Investment  
Association of Canada

Association canadienne des  
gestionnaires de caisses de retraite

February 21, 2019

Expert Panel on Sustainable Finance  
Via Email: [ec.sfep-pefd.ec@canada.ca](mailto:ec.sfep-pefd.ec@canada.ca)

Dear Mr. Macklem, Mr. Chisolm, Ms. Thomassin and Ms. Zvan,

**Re: Comments on the Interim Report of the Expert Panel on Sustainable Finance**

The purpose of this letter is to provide comments from the Pension Investment Association of Canada (PIAC) on *Interim Report of the Expert Panel on Sustainable Finance* (the “report”) which was published in November of 2018.

PIAC has been the national voice for Canadian private and public pension funds since 1977 in matters related to pension investment and governance. Senior investment professionals employed by PIAC’s member funds are responsible for the oversight and management of over \$2 trillion in assets on behalf of millions of Canadians. PIAC’s mission is to promote sound investment practices and good governance for the benefit of pension plan sponsors and beneficiaries. PIAC’s positions on public policy reflect the fiduciary framework in which member funds operate and its commitment to work in the best interests of plan members.

PIAC compliments the Expert Panel on its thorough and thoughtful report. We appreciate the Panel’s efforts to engage many participants in Canada’s business and financial communities, including PIAC’s Investor Stewardship Committee. We are pleased to offer our comments which are largely limited to the Foundational Elements section of the report.

**The Role of Canada’s Public and Private Sector Pension Plans.**

PIAC members are pension plan sponsors whose focus is delivering returns to pay benefits over the long term. Our membership includes pension funds of all sizes and types across Canada in both the private and public sectors, all which provide substantial financing to the Canadian economy through their investment activities. As such, we agree with the Expert Panel’s assertion that pension funds are instrumental in driving a

transition to a low carbon economy, however, this transition also requires the involvement of other market participants including banks, insurers, commercial asset managers, stock exchanges and securities regulators.

### **Policy Signals**

PIAC recognizes climate change as a systemic risk with potential financial implications for market participants. We agree clear policy signals from government are expected to/intended to /should encourage/ elicit responses from the financial and business sectors. Therefore, we generally support measures that serve to reduce or mitigate the negative impacts of climate change including efforts to reduce GHG emissions through clear regulatory action and guidance, or that create incentives to influence capital allocation and foster innovation.

### **Fiduciary Duty**

Section 3.4 of the report contemplates whether or not there is a need to more clearly define the scope of fiduciary duty with respect to evaluation of environmental, social and governance (ESG) factors. PIAC members operate in a fiduciary framework that imposes a duty of loyalty and a duty of prudence on plan administrators. We are required to act in good faith, in the best interests of plan members and beneficiaries while preserving the intergenerational fairness of the plan(s). PIAC believes, because of the potential for ESG factors to have financial impacts on our investments now and well into the future, it is within the scope of our role as fiduciaries, as currently defined, to consider these in our investment processes.

Further, we have observed a growing consensus to this point, as reflected in:

- The conclusions drawn the 2005 and 2009 Freshfields reports<sup>1</sup>
- The PRI's 2015 report on Fiduciary Duty in the 21<sup>st</sup> Century<sup>1</sup>
- Broad endorsement of reporting standards such as the Global Reporting Initiative, the Task Force for Climate-related Financial Disclosures and the Sustainable Accounting Standards Board (SASB).
- The proliferation of Stewardship Codes around the world that guide investors on responsible investing principles and activities.

### **Reliable Information and Effective Disclosure of Climate-Related Financial Risk.**

In addition to clear policy signals from government, PIAC emphasizes one of the most important factors in creating markets for sustainable finance is improved reporting on climate-related risks and opportunities. We have previously stressed, as long term investors, our members require reliable, consistent and comparable information on climate risks to make informed investment decisions. In Canada, disclosure on climate risks and opportunities is often insufficient or completely absent with even basic information around GHG emissions not disclosed. This leads investors who wish to consider climate risks in their decisions, and those who create investment products for

<sup>1</sup> [www.unepfi.org/fileadmin/documents/fiduciaryII.pdf](http://www.unepfi.org/fileadmin/documents/fiduciaryII.pdf)

investors, to rely on estimates from service providers who use differing measurement methodologies.

PIAC notes the recent initiative from the Canadian Securities Administrators (CSA) to review disclosures from reporting issuers on this topic, where the substantial dissatisfaction with the current state of climate-related disclosures was discussed.<sup>2</sup>

PIAC is a long-time supporter of enhanced disclosure of climate risks and supports policy decisions, regulations and/or amendments to corporate and securities law to facilitate this. As such, we believe the Expert Panel's final recommendations should include some level of mandatory disclosure regarding material environmental and social factors for Canadian companies, which may include the adoption of the Task Force for Climate-related Financial Disclosure's (TCFD) recommendations. These recommendations require the disclosure of decision-useful climate-related information including Scope 1, 2 and where appropriate, Scope 3 emissions. PIAC believes it would be acceptable to adopt a comply or explain approach since certain requirements, namely scenario analysis, may not be necessary for all companies. Achieving standardized disclosure in this area would benefit our members by making climate change information accessible to all plans irrespective of their size. As the Federal Government's jurisdiction does not extend beyond companies incorporated under the Canadian Business Corporations Act (CBCA), the Expert Panel should encourage other market actors such as securities regulators and stock exchanges to adopt relevant regulations or requirements and to join the Sustainable Stock Exchanges Initiative.<sup>3</sup>

Going forward, the Expert Panel should consider a future role in facilitating discussions among the various bodies involved in regulating corporate disclosure in Canada to determine the path forward.

We again thank the Expert Panel for their excellent work on this topic. We appreciate this opportunity to share our views.

Yours sincerely,



Susan Golyak  
Chair, PIAC Investor Stewardship Committee

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<sup>1</sup> <https://www.unpri.org/fiduciary-duty/fiduciary-duty-in-the-21st-century-canada-roadmap/260.article>

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<sup>2</sup> <https://www.securities-administrators.ca/aboutcsa.aspx?id=1677#Backgrounder>

<sup>3</sup> <http://www.sseinitiative.org/>