



Pension Investment
Association of Canada

Association canadienne des
gestionnaires de caisses de retraite

September 10, 2019

Expert Panel on Sustainable Finance
Via Email: ec.sfep-pefd.ec@canada.ca

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

RE: Comments on the Final 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 *Final Report of the Expert Panel on Sustainable Finance, Mobilizing Finance for Sustainable Growth* (the “report”).

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 commends the Expert Panel on Sustainable Finance (hereafter referred to as ‘the Panel’) for its leadership and vision in outlining a path for Canada’s financial sector to support Canadian businesses through-out the global transition to a low carbon economy. We agree with the Panel’s assertion that Canada has the means and opportunity to stand amongst global leaders to develop made-in-Canada climate-smart solutions, products and services, and to become a hub for sustainable investment.

PIAC members are pension plan sponsors whose focus is delivering returns to pay benefits over the long term. Pension funds can be instrumental in driving the transition to a low-emissions future and we agree that a committed alliance between all market participants is a necessary precondition.

Pillar I: The Opportunity

PIAC acknowledges that the transition to a climate-smart economy must facilitate industry competitiveness while promoting sustainable outcomes. The *Pan-Canadian Framework on Clean Growth and Climate Change* (PCF) serves as a policy signal to investors to guide better informed investment decisions. As such, we welcome the Panel's recommendation for the 2.0 extension of the PCF to 2030, 2050 and beyond, in alignment with institutional investors' investment horizons, while providing a capital plan for climate resilient economic growth. We appreciate that the year 2030 may serve as an important milestone to revisit Canada's progress relative to various industry and economy-wide emissions targets.

We broadly support the Panel's call for emissions reductions objectives that align with Canada's commitments to COP 21, complete with industry specific visions and cost-benefit analysis of climate adaptation measures. As investors we appreciate the call for policy certainty regarding the projected trajectory of carbon pricing nationally. Considering Canada's resource-based economy, we support a role for Canada to establish our country as a global leader in the decarbonization of high emitting sectors, including our electrical grid and to advance clean tech development. We would support development of eligibility criteria for green bonds and sustainability accreditation standards generally, to promote integrity in the market.

We support the creation of a public-private Sustainable Finance Action Council (SFAC) to implement key aspects of the Final Report, with due representation from the pension funds and broader institutional investor community. Many of our members are signatories to the UN-backed Principles of Responsible Investment (PRI) and are active in ongoing national and global discussions on sustainable finance. SFAC, in its role as a convener and a knowledge-exchange hub, could benefit from PIAC members' expertise and experience in responsible investment.

Pillar II: Foundations for Market Scale

As long-term institutional investors, PIAC members recognize our fiduciary duty to protect and enhance the value of our clients' investments. Climate-related systemic risks present cumulative, far-reaching financial risks and opportunities, and the possible value creation or erosion can be significant. There is a lack of consistent, reliable climate-related data and an absence of credible analytical models to inform investors. Shorter term investment strategies may treat climate risks as immaterial, while longer term investors may erroneously assume that they are protected through a strategy of broad diversification and the regulatory environment of the day.

A single national climate data hub, as proposed, synthesizing key datasets from a Canadian consortium of climate, economic, academic and financial experts to develop relevant and useful investment decision analytics would help to address the climate information gap, and make data more accessible to investors, irrespective of fund size. Similar concurrent initiatives are already underway internationally. As institutional

investors we would welcome the development of a Canadian Stewardship Code for investor fiduciaries, building on the good work of the International Corporate Governance Network (ICGN) to outline how fiduciaries should consider climate change and other material ESG matters.

We broadly support the promotion of climate-related knowledge building and transfer, to accelerate climate awareness and competency through educational programs to enable a competent advisory landscape, collaborative engagement and to improve investors and firms' understanding of climate-related financial risks and opportunities.

Frameworks such as the FSB's Task Force on Climate-Related Financial Disclosure (TCFD) provide useful disclosure guidance for comparable and decision-useful climate-related information. Translating climate science into forward-looking financial scenarios is particularly challenging given the complexity of assumptions, methodologies and data. Our members are at various stages of conducting scenario analysis, and the scenario modeling services available in the market remain early and out-of-reach for many investors given resource constraints. We welcome the call for a Canadian approach to implementing TCFD and disclosure guidance for both companies and for investors. Considering the complexity of climate-related analytics and its dependence on critical data, we support a transitional safe harbour provision to protect against legal liability, as well as a 'comply-or-explain' approach as proposed through to the end of 2026 to provide our members sufficient time to effectively address TCFD disclosure, once data tools and disclosure by underlying portfolio companies has improved.

We suggest that any modifications to the Canada Business Corporations Act to require federally incorporated companies to include climate-related disclosures in their annual reports may need to be deferred until the climate data reporting landscape has become sufficiently robust. In the meantime, we support a role for the Chartered Professional Accountants of Canada to develop a climate lens for accounting, audit and assurance standards to enable sufficient quality climate data to emerge; and we also support a role for Office of the Superintendent of Financial Institutions to clearly articulate its approach and expectations for its assessment of firms' governance, management, disclosure and stress-test resilience related to climate risk.

Pillar III: Financial Products and Markets for Sustainable Growth

The transition to a climate-smart economy requires development of fit for purpose financial products and markets, which may present significant investment opportunities. PIAC supports the development of these products and services generally while not opining on their relative merits.

Recent data published by Corporate Knights estimates that the annual value of the sustainable finance opportunity for Canada's financial sector is at least \$27 billion and could be as high as \$110 billion annually by 2025. Developing a made in Canada transition taxonomy with application for industry sectors that play a prominent role in the Canadian economy, and with application for financial instruments such as green bonds

and green loans is key to secure financing to support the transition to the low-carbon economy. A Canadian climate taxonomy aligned with international taxonomies currently under development would be ideal for PIAC members, who are global investors, for comparative purposes, with due consideration of Canada's unique resource-based economy.

Again, we commend the Expert Panel for their excellent work and appreciate the opportunity to share our thoughts on these matters.

Yours sincerely,

A handwritten signature in blue ink that reads "Susan Golyak". The signature is written in a cursive style with a large initial 'S'.

Susan Golyak
Chair, PIAC Investor Stewardship Committee