

On the Radar



Canada's Sustainable Finance Movement— Is it on Your Radar?

CPA CANADA INSIGHTS

- Aligning financial practices with sustainable policy objectives is an area of focus for the Canadian government and will impact all capital market participants.
- Integrating sustainability into the financial and regulatory system has implications for business models, corporate strategy, reporting and governance.

The march toward the realignment of the global financial system with sustainable development is gaining momentum. A number of countries are examining their financial policies and regulations to create conditions to promote long-term economic growth that delivers on environmental and social objectives as well as financial returns.

Canada is among those nations searching for ways to shift flows of capital in support of its climate change and sustainable development agenda. As one of the 195 countries that signed the Paris Agreement on climate change and the UN2030 Agenda for Sustainable Development in December, 2015, Canada is committed to a first-ever universal global climate pact toward more sustainability for the planet and the global economy.

To that end, the federal government appointed an [expert panel on sustainable finance](#) in April, 2018. According to Tiff Macklem, Dean of the University of Toronto's Rotman School of Management, and chair of the four-member federally-appointed committee, the goal is to “engage the financial services industry and the business community on how to get mainstream financial markets more engaged in making the very large investments needed to adapt to climate change and to transition to a low carbon economy.”

Macklem explained in an interview for this article: “The financial services industry is not going to solve climate-change but it has a critical role to play in channeling savings to productive investments and new innovations that will support greenhouse gas emissions in line with Canada’s Paris Agreement commitments, and to help households and businesses manage and mitigate their climate-related risks.”

Europe Taking a Lead

The Canadian initiative emerged in the wake of an [action plan on sustainable finance](#) unveiled by the European Union’s High Level Expert Group on Sustainable Finance earlier this year.

Chief among the EU’s voluntary recommendations released in January, 2018 are:

- reorienting capital flows towards sustainable investments, such as green bonds, which are similar to traditional bonds except they are used to fund environmental projects or those that have a positive climate benefit.
- managing financial risks associated with climate change
- fostering “transparency and long-termism in financial and economic activity.”

Climate change is a key issue within sustainable finance due to its pervasive impacts and the urgent need for global action to achieve the aspirations of the Paris Agreement.

To this end, the EU’s action plan also endorsed the recommendations of the [Task Force on Climate-related Financial Disclosure \(TCFD\)](#). The TCFD (commissioned by Mark Carney, chair of the Financial Stability Board of the G20 in late 2015) developed voluntary recommendations focused on how public companies can put forward more consistent disclosure of climate-related financial risks and opportunities in mainstream financial filings.

Enhancing Transparency Around Financial Implications of Climate Change

One of the expert panel’s objectives is to “accelerate the implementation” of the TCFD’s recommendations in this country. With increased transparency, financial markets should not only be able to better understand and assess climate-related financial uncertainty—but also investment opportunities, estimated to be worth [US\\$5-trillion to US\\$7-trillion globally](#).

Since corporate disclosure to investors is largely a provincial jurisdictional matter in Canada, the starting point for the federal expert panel, according to the release issued by Ottawa, is a study published by the Canadian Securities Administrators (CSA) on April 12, 2018.

In its long-awaited [Climate-Change Disclosure Project report](#), the CSA found that more than half of issuers examined—or 56%—provided specific details of climate-related disclosure in their filings, while the remaining divulged boiler plate information or none at all. The majority

of the respondents did not quantify the potential financial impact of climate-related risks in their disclosure. Most notably, almost none of the issuers examined by the CSA provided information relating to governance and risk management practices regarding climate change.

“Substantially all users consulted were dissatisfied with the state of climate-related disclosure and believe that improvements are needed,” the CSA’s report declared.

In all, the CSA’s findings echoed some of those in a [recent study](#) by CPA Canada that found while 79% of companies are making climate-related disclosures, these disclosures lack the necessary entity-specific context. Although Canadian securities law requires public companies to disclose information material to investor decision-making, including [material environmental issues](#), the CPA Canada study found there “may be a gap between investor information needs and current corporate reporting practices.”

Paving the Way for Sustainable Finance in Canada

Macklem argued a profound shift toward making the environment a major factor in corporate decision-making is under way. He pointed to property and casualty insurers who have been dealing with more frequent extreme weather (such as ice storms, heavy rains and flooding, wildfires and forest fires) which has been affecting their returns. Insured damage hit \$1.33-billion last year, according to the Insurance Bureau of Canada. At the same time, investors are increasingly more cognizant of the carbon footprint of their portfolio and the overall sustainability of their investments.

“So change is here. What is required is to scale that change. Mainstream capital markets can provide the financial scale and expertise. Canada can be a leader in this transition or play catch up later,” Macklem said.

The panel is working to deliver “useful and actionable recommendations in the Canadian context,” Macklem added. [An initial report to the federal ministers of Finance and the Environment was issued in October 2018.](#)

Meanwhile, as the work to make sustainable finance a mainstream reality in Canada commences, CPA Canada continues researching this nascent area while working with boards of directors and senior management providing important guidance on how to account for and disclose climate risk.

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