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Sustainable Finance – audio transcript for CPA Canada Disruptive Governance Series Podcast

GIGI DAWE: Welcome to the first of CPA Canada's series of podcasts on disrupting events being faced by boards of directors. Today's session will provide context and depth into the final report of Canada's Expert Panel on Sustainable Finance.

Sustainable finance is about investments that benefit the environment – basically, we need the right finance and investment structures to help fight climate change and build a low-carbon economy.

Today we've brought together two members of the Expert Panel to dialogue about how businesses, investors and government can work to design the approach necessary to accelerate Canada's shift towards a sustainable economy.

Tiff Macklem, Chair of the expert panel, is Dean of Rotman's School of Management. Tiff brings an extensive background as past Deputy Governor of the Bank of Canada. Tiff also sits on boards, including Scotiabank.

Andy Chisholm is a member of the board of directors of the Royal Bank of Canada. Prior to that, he spent most of his career at Goldman Sachs, in which he held several roles, including Global Senior Strategy Officer.

Now, on to our session.

I'm going ask you to start, Tiff, by introducing sustainable finance and the final report.

TIFF MACKLEM: Thank you, Gigi. A pleasure to be here with you this afternoon.

So the report is called *Mobilizing Finance for Sustainable Growth*, and what it's really about is connecting the dots between Canada's climate objectives, our economic ambitions, and our investment imperatives. Our financial sector has tremendous ingenuity; it directs savings to productive investments, and it has a lot of influence, and we need it to help us as Canadians secure a sustainable economic future.

If you were to boil the report down to one simple message, it's that if Canada is to realize our environmental and economic goals, sustainable finance needs to go mainstream. What do we mean by that? We mean that climate-conscious investment and risk management need to become business-as-usual in financial services. They need to become embedded in everyday financial decisions and products.

Sustainable finance needs to be simply finance.

Now, the reality is, finance is not going to solve climate change. But the things that are – innovation, clean electricity, energy-saving buildings, climate-resilient infrastructure – they all require investment, and a lot of investment. And that's where finance is critical.

Finance is also critical, particularly the insurance industry, in helping businesses and Canadians manage new climate risks, because climate change is, you know, it's going to be as much about adapting to new climate realities as it is to transitioning to low-carbon growth.

Our report includes 15 recommendations that are really about bringing sustainable finance into the mainstream.

GIGI DAWE: Thank you. Andy, did you have anything to add to that?

ANDY CHISHOLM: No, that was a great summary. Good start.

GIGI DAWE: Thanks. Can I ask you both to address the global competitiveness issue? Sustainable finance is moving forward internationally, and in the report, it indicates that Canada is a bit slow to adopt. If they are, then our economy suffers. Can you address that issue?

ANDY CHISHOLM: Well, let me start by putting forth a premise, which is that if the world is to be serious about climate change – and it's appearing every quarter that it is increasingly so – then there is a need, simultaneous with maintaining a healthy economy in each country as well as globally, to pursue clean growth.

Clean growth means decoupling economic growth from growth in emissions. Canada starts with an economy that is very, very, very heavy in emissions. We're based on energy, we're based on resources, we're based on agriculture, we're based on transportation, we're based on real estate. Those are a number of the key sectors that drive the economy, and they're all very emissions-intensive.

As a result, if the world is increasingly focused on the question of reducing carbon, reducing carbon emissions, and we are emissions-heavy, carbon-heavy, we have extreme vulnerability, and a need, as a result, to treat this strategically. The more that all of us on the panel got involved in this, however, the more that we came to think that if truly, as a nation, we are able to embrace the innovation required and embrace this change that's required and get ahead of the ball, then there will be tremendous international opportunity.

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The alternative is, we resist, and resist, and resist, and eventually we creep into the swamp, and we'll find it difficult to get out of that. As a result of that, we tend to talk about a phrase that we have the opportunity to be makers of our destiny rather than takers. And what that means is that the world will increasingly define the rules, define the boundaries, define the opportunity set, and define what they want less of. And if we simply are here taking all that change and then having to adapt, we're going to find it very difficult to build a competitive economy.

On the contrary, if we take initiative, there's tremendous potential for us.

GIGI DAWE: Tiff, did you have anything to add to that?

TIFF MACKLEM: Just to build on that, I think as a panel, when we started, we saw the objective as, 'Canada needs to live up to its international commitments to deliver our share of global GHG emissions reductions.' But as we got into it, increasingly what we saw was that we also need to address climate change as a competitiveness issue, because increasingly the world, as Andy said, is becoming concerned about environmental footprint.

We start from a situation where we are a high-emissions economy, and sound environmental stewardship is increasingly intersecting with market access and becoming critical to our competitiveness.

So, if you're sitting on a board of directors, I think, you know, yes: We need to do the right thing as a country to deliver our share of global GHG emissions. But there is a very direct market issue that you're going to need to address. Your competitiveness in the marketplace, how investors, how your clients evaluate you, your environmental stewardship is going to be an increasingly important factor for them.

ANDY CHISHOLM: And I might add to that a little bit: The investment community is one aspect of the financial community that is increasingly, from an international perspective, increasingly getting focused on these issues. And groups of very big, very weighty investors are coming together in order to collectively engage with companies on these issues, and in order to work together to solve the issues they confront as a means of investing in a more climate-aware manner.

And they believe that that is just better practice. As a result, this investment community, and the momentum behind this topic, is going to grow, and it's going to affect just about every company that has access to the capital markets as being one of their needs.

TIFF MACKLEM: And Gigi, as you indicated, Canada does have some catching up to do. But we actually think Canada could be a leader in the global transition as a trusted source of climate-smart solutions. You know, we have some tremendous assets in this country: We have a strong, diversified economy; we have a world-class financial system; and we have an excellent capacity for innovation.

Our natural resources are a huge asset for the country, and we need solutions that are geared towards sustaining a vibrant resource sector. And a key element of our report is that nobody individually, or even any sector, can do this on their own; we have to get business, finance, government, society, academics working together so that we can come up with the solutions that are going to secure a sustainable economic future for Canada.

GIGI DAWE: Now that brings me to timelines. In the final report, the timelines appear to be quite generous. Can we discuss this and about how boards can create the urgency that they need to, within their organizations, somehow shorten the time frame that's indicated in the report? And, you know, how can CPA Canada, or how can, you know, all of the players overall help people to shorten the timelines?

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ANDY CHISHOLM: I'm going to offer a couple of comments on that if I could, just to start, and then Tiff will undoubtedly want to add to that. But I'm going to draw an analogy to the financial sector, post-financial crisis. And at the time, I was in New York, and I was in charge of the financial institutions' business, so we were advising, capital raising, helping companies through this perilous period.

And in some moments, it kind of felt a bit like being an emergency room doctor, because every day there was a new, tremendous emergency involving very significant companies.

Coming out the back of it, the expectations on the financial services sector, and the regulatory framework under which they operated, started to shift. And within that, there were a lot of very valid reasons why the organizations could not adjust to a completely new capital regime, liquidity regime, etcetera, etcetera, over too compressed a time frame. They had big balance sheets and so on, and it would have caused more disruption.

Having said that, once the rules were in place with what, in hindsight, were generous timelines – to just echo your comment – what occurred was that many of the companies having to embrace that change, did so. At least, North American companies did so, and did so quite rapidly.

And they found that when they started to engage with investors, investors started to test them on what their plan was and what their progress was. And as a result, some of the companies realized the faster that we can get to safe ground, the faster we can get to the new normal, the better support we are going to have from the investment community, our employees and so on.

As a result, they would like to go into those meetings saying, I know the timeline says we don't have to hit this liquidity provision till 2021; we're going to hit it in 2018. And, so the investors would then go into those meetings and say, Well, tell me about capital. And the answer would be given.

And then they would go to the next company. And the next company would say, well, the timeline is 2021. I think we can achieve it by 2021. The investors then said, Well, that's not good enough, because I heard the bank across the street just tell me that they can do it two or three years faster, and they can meaningfully exceed these targets.

As a result, I'm going to over-weight the other bank, and I'm going to under-weight you, because I don't think you're onto this important issue fast enough, and my capital is going to move. And it did. And people who appeared to be laggards were penalized heavily by the capital markets, and people that appeared to be more enlightened and gave more confidence about their embracing this change were rewarded by the capital markets. And that defined competitiveness, and there were two or three multiple points difference between those two types of companies.

GIGI DAWE: Interesting. Tiff, did you have anything to add to that?

TIFF MACKLEM: I'd just add, first of all, I'm glad you think the timelines are generous. I hope everybody thinks they're generous, and I hope there's, as Andy indicated, I hope there's a dynamic to move more quickly.

I think the key thing is that there are some things that are relatively straightforward that everybody can do right away. There are some things that are a bit harder, and climate change is a different kind of risk. It is a much more long-horizon risk. It's an undiversifiable risk. And there is some expertise and knowledge that we need to develop, and some capacity in our professional services, in our financial services, in our auditing, in our legal profession, in our consultants.

But the key thing is, you don't need to wait for all the pieces to be in place to get started. You should be able, as a company, to outline your governance of climate change, today. You should be able to outline, today, how you're thinking about it impacting your strategy. You should certainly be thinking about what are the material climate risks that are affecting your company, and disclosing those.

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You know, when it gets – you know, some of the things that are a bit tougher are things like metrics and targets. You know, it may take you a little while longer to get to those. And another piece that, you know, getting to things like scenario analysis, where you look at what are some different scenarios with, say, a 1.5-degree scenario, a 3-degree scenario, a 1-degree scenario: how do those look?

That's, we probably don't have the capacity to fully do those today, but we need to get started to build that capacity today so that we can do those.

And so, the timelines really reflect the fact that different companies are at different stages. There is some expertise to be developed. If it can be done quicker, fabulous.

ANDY CHISHOLM: And I think as a result, what was on our mind very much was, Let's not suggest time frames that are going to be met with horror and massive outrage, because that would just be viewed as being unrealistic and would be counter-productive in the process of promoting a constructive shift.

But at the same time, we decided, especially related to the issue of disclosure, we decided to suggest that there needs to be a comply-or-explain notion. You must comply, or you must explain why it's not relevant to you. But you have to do the work to explain that.

But on the must-comply, that means that this date, the backstop date, for example, scenarios – some of the more complicated aspects of disclosure, here – that that backstop date means you need to get going today. You need to start thinking about this today, because the alternative of, 'Well, we'll get to it someday' means you don't get started today.

So what we were trying to do is promote something that was realistic but gets people started today, and then the professional services capability starts improving, the snowball runs downhill, and the capital market policing function that I explained before related to the financial sector starts to come into play.

GIGI DAWE: Thank you. Okay, I want to get into a bit more detail, now, and ask if you can explain specific steps that board members can take to seize the opportunities that sustainable finance is providing. So, you know, let's start with how do you even get this on the board agenda? And, which committee should take this on?

TIFF MACKLEM: I think that a key first message is, there's not a sort of one-size-fits-all solution. Different companies are in different businesses and have different priorities. So I don't think we're going to say it should be this committee and you need, you know, this exactly on your board.

But let's just start with what is the job of a board. Well, a board is accountable for overseeing a company's long-term strategy. A board holds management to account on the execution of that strategy, and a board has responsibility to ensure that all material risks are identified and managed.

So, let's just start with the third one. So climate risk, for most businesses, will have some material risks. You know, certainly one of the things I think we learned through the panel is just, you know, the extent of the impacts of climate change across the economy. It's something like, I can't remember the precise number, but it was something like 70 of 75 sectors in the economy will be materially affected by climate change. Don't quote me on that number, it's not exactly right, but it's that order of magnitude.

So I think the place to start, as a board, are what are the material risks. The easiest one, the most obvious ones, are the physical risks. You know, how will more extreme weather events, more hurricanes, more forest fires, more flooding, is that going to affect your business? How is it going to affect your supply chain? How is it going to affect your clients? How is it going to affect your partners?

But then, as the economy is transitioning, how is that going to affect your business? And then that quickly gets to strategy. Some parts of the economy are going to be growing faster; others are going to be growing slower. How is that affecting your strategy?

So those are the kinds of questions you need to ask yourself. I think, you know, boards have a number of levers; I think it just starts with culture. I think a board wants to make sure that it is educated and up-to-speed on these issues.

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I think it's a board's, you know, boards set the tone. They provide some tone at the top. They should be asking management these questions. In terms of board structure, it could be dedicated to a committee; it could show up in a number of committees. It could show up in the risk committee. When you get to disclosure, it's probably going to show up in the audit committee. It could well show up in the governance committee. And, frankly, the strategy should be discussed by the full board.

Disclosure we've already talked about. Disclosure is important for investors, but disclosure is also a mechanism to encourage change within the institution. If you're going to disclose around your climate risks and your strategy and, ultimately, your targets and your metrics, I'm sure your CFO is going to be very seized with that issue. I'm sure the board will be quite interested. Management will become interested, and what we saw in many institutions is, there's actually a lot of activity going on, but it's not very well coordinated.

I think the CFOs, you know, the CEOs, the CFOs, they're going to be the ones that are, with the encouragement of boards, that get it coordinated, get it more organized, and accelerate the pace of change.

ANDY CHISHOLM: I think, in many ways, you almost have to start at 40,000 feet. You quickly need to descend from there closer to the ground. But you've got to start at 40,000 feet on the basis that, I think in general there's a relatively low level of understanding throughout the business community about the potential speed and forcefulness of change that could emerge as a result of global actions on climate change.

And that's not in any way a criticism; it's simply, if you are not steeped in it, if you're not in those conversations, you're unaware of a number of things that are taking place. Therefore, there has to begin a level of understanding about what are we talking about, why is it so relevant, who knows something about this that can get us to step one and step two quickly, and then let's go from there.

And then you get to a number at 30,000 and 20,000 feet – you get to a number of very basic questions. If the world is serious about the Paris Agreement, and serious about acting on it and national commitments to that in that respect, what happens to us? How might our industry shift if there is a meaningful response to this issue?

If the science is right and we creep, year by year, and they become increasingly shrill in their alarms, and the world increasingly has to react in a shorter and shorter time frame, what can happen to our business model? What can happen to our, the things that we rely on, which Tiff talked about – our supply chains, etcetera, etcetera.

And then you quickly get to, well, What's the framework that we have internally to assess risk and opportunity, and is climate change actively considered in that? And if so, how? Who does it? Who's injecting those conversations? Do the business leaders of the key businesses in the company, are they actively engaged in this dialogue? Or is it the corporate and sustainability and responsibility officer that is on duty, that is the one that talks about this?

When you start getting to the question of, Who knows enough about this, who's responsible for this, and how do these issues work through our processes, then you start to get somewhere. And it leads you to, Well, what committee, and what process, and what governance, and so on and so forth.

GIGI DAWE: Okay, that's really interesting, and it leads me to another discussion that you hear out there a lot, and there are actually now companies that are focused on this whole issue of climate competent boards. And there are some investors and some consultants out there that are saying, certainly some large investment groups that are saying, The entire board needs to be climate competent. There are others that are saying, Now you need some members to be climate competent.

And others, you know, I recently heard that said it's not about climate competence; it's about risk competence. Do you need a climate competent board or do you need a risk-competent board?

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What I hear from board members in the guidance that we produce, is that in certain areas such as risk, strategy - I'll throw climate change in with that - more prescriptive guidance is more helpful. What are your thoughts about that, around the prescription of this, around climate competent boards? How do you actually – you talk a lot about training and development in the report – how do we bring that down to the level to help board members that simply aren't there? Or, do they need to be?

TIFF MACKLEM: My own view would be – and I think you can easily have a divergence of views, because it will depend on the company and it will depend on the situation to a degree – but having said that, I think the entire board needs to be climate aware. They need to understand, at a high level, what are the issues, how could it possibly impact our business, our business model, the things we do, the future that we have in store for us.

Beyond being climate aware, however, you'd like to have a certain part of the board that really is much more deeply involved in these issues, because then they can alert other members of the board, or other committees, to new developments, new opportunities, new ways of thinking. And they travel in circles where people talk to each other and that competence is constantly refreshed.

I think it's unrealistic, with the diversity of issues that a board confronts these days, that every board member is equally competent in every big issue that it faces. And as a result, I think there's a basic competence, a basic awareness, and then a depth residing amongst some smaller number of the board, that makes the most sense.

But it's very difficult when you have a small number of people, one or two, who know something – know a lot – but the rest of the board has no particular awareness, because you're always, whether it be climate or any other issue, because the board is always going to be, well, I don't know what you're talking about. Next issue.

And so as a result, I think there has to be a greater level of receptivity that is ingrained into the board process.

GIGI DAWE: Can I ask a follow-on question to that, then? If that's the case, what about the area of scenario planning, the oversight of risk, and the oversight of strategy? Does the whole board need to be more involved in, and aware, or even beyond awareness, do they need to be competent in those areas in order to support this?

ANDY CHISHOLM: To me, that just goes back to your question of, do they need to be risk-competent. You're going to have external advisors, you're going to have a couple of people on the board who know a lot, but it really comes down to What are good questions to ask. How should you assess risk frameworks generally? How should you assess strategic business plans? What things to question?

And in that context, the scenario planning, to us, was an important part of this. And people shy away, because it's horrendously difficult to assess risk in a forward-looking manner when there's little historical precedent – no historical precedent for this.

As a result, people confuse, or conflate incorrectly, the notion of scenario planning and forecasting, predicting. Scenario planning, to us, is a means of risk management. It is simply to say, It's really tough to predict the future, but if it goes in this direction, what are the consequences, logically? And, how might we be impacted plus/minus if it goes that way …

And out of these risks, are any of these ones that rise to a level of impact that would seriously endanger how we go about our business to the point that we should be taking a serious hedging plan to mitigate those risks today, and otherwise, what are all the smaller steps we need to do to manage that risk bubbled up by the scenario analysis?

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GIGI DAWE: Tiff?

TIFF MACKLEM: I don't have a great deal to add. I think Andy's guidance is very sound; you want broad climate and risk awareness on your board. And yes, you want a few people who have deeper knowledge, who take it upon themselves to continually update themselves with what's happening in this area.

There are a lot of demands on boards, you know, whether it's cybersecurity, data integrity, technological disruption. You know, if you're a financial institution, anti-money-laundering. And that's the value of board diversity. You know, you've got to have different skill sets and different expertise at your board. Not everybody is going to be an expert on climate change; you wouldn't want a board where everybody is an expert on climate change.

But you certainly want some broad awareness and a few people who have some deeper knowledge.

The other thing I would stress is that that may involve bringing some people onto the board. But in most cases, I think it will largely involve education, and I think there are, you know, opportunities to provide board education sessions, certainly to generate that general awareness. And, you know, I think that would be a good thing for many boards to do, if they're not doing it already.

GIGI DAWE: Great, thank you.

Okay, I'm going to take it in a slightly different direction, now. In the report, you indicate that the timelines for small- to mid-sized organizations is a big longer, based on the fact that they have fewer resources, quite often, to deal with this. However, in Canada, many of the companies that are in the fossil fuel-type of sector, or extractive sector, and have a large carbon footprint are, in fact, these small organizations.

They do have fewer resources to respond, but also – and fewer capital assets that would need to be upgraded – and so, in fact, could be seen as nimbler than the large-cap companies.

Wondering if you can expand a bit on your thinking around the timelines for small- to mid-size versus larger-cap companies?

TIFF MACKLEM: Well, first of all, just because we provide a longer timeline, a little more runway, for smaller companies, doesn't mean we don't think they should start today; they should start today. But I think we have to recognize, as you indicated, they have fewer resources. They don't have the scale economies; they can't spread these fixed costs over as large an operation.

And there are some, you know, this is a journey. We don't have all the answers; there are some things to work out. And I think it makes sense to allow the bigger players to go faster and lead and develop the expertise.

Part of this, too, is we need – this is the CPA – we need the accounting community to develop the expertise to address these issues. We need the legal community, we need the consulting community, the actuaries, the stock exchanges. There's a lot of players beyond the companies themselves; these are the key players that support these companies. So, we need for them to develop the expertise.

And by working with the larger companies, I think the idea is that that will reduce the cost for the smaller companies in time. And so the idea is, you know, the reality is, you've got to balance the burden with the opportunity if this is really going to happen. I mean, these are business decisions, and they've got to make business sense. So that was really the thinking.

But again: If companies want to go faster, we're all in favour.

ANDY CHISHOLM: And I think it's important to distinguish between the timelines that you're referring to, which relate to a framework that we put forward on disclosure, and disclosure meaning publicly describing the strategy, the governance, the metrics, the scenarios. But, distinguishing between that disclosure question and just fundamentally, Where is your company headed?

Because, if you are not spending any time on Where is our company headed, that whole disclosure question can just be a huge moot point at the end of the day. You can be tremendously compliant in disclosing five or six years from now, but your business may be too late to adjust.

And so therefore, starting with those big questions about How might my business be impacted, How might the industry be impacted, is that something that I'm going to be able to manage, is it something that I need a long time frame, what are the opportunities, what possibilities do I have to make a 10-degree, 20-degree, 30-degree shift to my business model to get ahead of what appears to be an inevitable transition … those types of questions, I think, smaller companies, as you identified, sometimes can be extremely nimble. And they can move faster than other companies.

But if they think this is just a requirement, a bureaucratic or an administrative disclosure requirement rather than a deep sense of, ‘Wait a minute: this is a fundamental shift in the way economic systems are going to work, and our business is going to be caught in these economic shifts - how do we manage this?’ That needs to start immediately.

TIFF MACKLEM: I would just underline that in our conversations and our consultations and our roundtables, we often heard, particularly from smaller companies but also from some larger companies, nervousness about, you know, sort of being at the front of the pack of disclosing. Not wanting to be out ahead of their competitors.

And that was one reason why actually having a timeline as a backstop was actually helpful. Everybody’s, Okay, there is a timeline: bring everybody together.

But it was interesting – when you talk to investors, often what we heard is, We’re looking for some leadership in disclosure from companies. We hear that there’s a lot going on. But they need to get out there and tell their story. And, you know, that’s exactly the kind of leadership we’re looking for when we’re making our investment decisions.

And you know, the reality is, we are seeing capital leaving our oil and gas sector in Canada. And Canada actually could be among the cleanest providers of oil and gas in the world, and there is a lot of innovation; the sector has been very innovative. The key message in our report is: You need to double down on that innovation, but you also need to accelerate disclosure so the world can see, so that it is credible that we are a low-emissions provider.

And that will be an important component in maintaining access to global capital.

ANDY CHISHOLM: I guess while we’re, you know, within this framework of a CPA event, and we’re talking about boards of directors, and all of them will have lots of legal advice and a certain amount, going to Tiff’s point about, Are there dangers or perils in putting your head above the parapet a little earlier rather than later? We specifically put a point in there that’s a little bit esoteric but to us has great import and relevance: which is, that Canada should investigate, rapidly, the notion of safe harbour for those companies that are, in good faith, getting the right advice, doing the right things, trying to report on a conscientious basis, but against something that is highly unpredictable.

And therefore, having a safe harbour for them to be protected in those situations where the world turns out very differently than their assumptions suggested.

And we think there’s ways to do that and hope that that recommendation is pursued rapidly, because I think that will help reduce some of the barriers to people’s willingness in this topic.

GIGI DAWE: Now, you both raised really interesting points, here: the safe harbour being one, and Tiff, you commented on, you know, capital leading organizations – leading Canadian organizations. In your report, you indicate that there are international initiatives occurring now on standardized taxonomies, and there’s been a fair amount of work being done in that.

And some of them appear to exclude some of Canada’s great work that we’re already doing, exclude some of our core economic sectors, when even though we are pursuing some activities and initiatives that lead to better environmental improvement, they don't necessarily fall within the mandates or standards that are being set out internationally.

What can we do about that? How do we, you know – should we be looking at local taxonomy? Should we trying to sort of fall under these international taxonomies or, you know, standardized taxonomies? Where do you see we can go in those areas?

TIFF MACKLEM: There are a few things we can do about it. What we observed is that the countries that are really on the lead, leading on this issue, generally don't have major oil and gas or resource sectors. Canada does. And Canada is not unique in the world.

And we actually think that there's a real role – Canada could really be a leader, actually – in this area. So, what do we need to do about it?

I think the first thing - and we're actually pleased to see there's already been some progress on this even before our report came out - really encouraging Canada to get a bigger seat at the global table on these issues. And so, as we outlined in the report, we were pleased to see the Bank of Canada has joined an international table; OSFI has done the same thing, TMX has just joined a group of more forward-looking exchanges.

It's important to get Canada's voice at that table and remind people that well, yes, there are the – you know, the resource sector is important; oil and gas is important. We're going to need a certain amount of oil and gas through the transition. Wouldn't you rather have it come from as clean as possible sources, as opposed to dirtier sources?

And then, with respect to taxonomy in particular, we talk in the report about something we call 'green transition bonds and loans.' So, how do those differ from green bonds or green loans? Well, they're designed for the sectors of the economy that probably wouldn't normally qualify for a green bond or a green loan, like the oil and gas sector, where they're doing something that is materially reducing GHG emissions, or reducing their environmental footprint.

So, I'll give you a concrete example: There are big opportunities in the oil and gas sector to reduce methane. Methane is, you know, depending on how you measure it, 30, 40, 50, up to 70 times more harmful than CO_2. But an investment by an oil and gas company to reduce methane emissions in extraction, would not normally – would probably not qualify for a green bond.

But that investment could actually have a much bigger positive impact than many investments that would be qualified green. The idea of a green transition bond would be … embedded in it would be some targets, some objectives. And if those were met, you'd get a lower interest rate. So there'd be a benefit.

You need some taxonomies, you need to develop some taxonomies to define, to make that market, to define that market. And we think Canada should begin by, you know, getting some big issuers, some big companies together, some big financial institutions, perhaps with an independent body, and try to develop a taxonomy that makes sense for Canada.

But we would want it to link up with the world, and we're actually, even within the last few months, we are starting to see some discussions at the international table on this.

We think this is a scenario where Canada could actually provide some leadership for the world. And in terms of finance, it's an area where Canada could actually develop this market, not just for Canada, but develop it globally. It could be a market in Canada for the world.

ANDY CHISHOLM: As with any market-based instrument, you want the market to be as deep, as liquid, as transnational as possible in order to reduce friction, reduce barriers. As a result, it would be fantastic if there were international standards that worked equally in Canada that addressed this particular issue.

Our concern is that that has not been an initial focus; that our companies run the risk of being excluded. And as a result, I think our view is, 'Let's move fast to try to create something,' just as Tiff has described, 'and ultimately hope and work towards a future where the international community embraces that and it all comes into alignment.'

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But I don't think we can run the risk of waiting for the international community to do it; I think we have to take some initiative, here.

GIGI DAWE: So that brings me to another comment, or another focus of the document, which is: Who should be driving this, and who can, in fact influence these international players – and who best can do it? There are pros and cons to government driving the evolution of sustainable finance versus having industry, business, lead the way.

What's happening in Canada versus globally in this respect, and what is the role of government to help us have a place in these global initiatives and ensure that we do have the seat at the table?

TIFF MACKLEM: So, in the report, we divided the recommendations into three pillars. The first is about opportunity, and it addresses the need to shift Canada's climate change discussion really from a discussion about a burden to a discussion about opportunity. And there, we think government has a role. We are supporters of, you know, we think a carbon tax is important; it changes the ROI, it's an important ingredient governments need to define the rules of the game

governments need to define the emission standards for vehicles and buildings.

But we have some recommendations where we think the government could be helpful in engaging both Canadians, individuals, and also businesses, to make them see the opportunity in their savings and investment decisions.

The second pillar is around foundations for market scale, and these foundational elements are really the building blocks that you need to get sustainable finance to go mainstream. Go back to where I started: The overarching theme is, we really need to … sustainable finance needs to go mainstream.

And if you want to build and scale a market, there are certain things you need: You need information; you need disclosure; you need legal clarity on fiduciary duty; you need support of professional services, accounting standards, legal standards, actuarial standards. And ultimately, a lot of those things will be delivered by the private sector, but the government has a clear role, in our view, in fostering and promoting those foundational elements that help the whole economy.

And in the third pillar are financial products and markets for sustainable growth, and these really focus on the critical sectors in the economy that are going to be very important to address climate change. So, you know, clean tech, oil and gas, infrastructure, buildings, electricity generation: Those are all very capital-intensive sectors, and they need financial products and services designed for them.

That part, really, is very much in the hands of the private sector. The government may do some things to seed them, to try to get them started, jump-start them, accelerate them; but ultimately, those are markets that will be developed by the private sector, and they need to make good economic sense or they won't scale.

GIGI DAWE: Great …

ANDY CHISHOLM: Again, I'd simply underscore what Tiff said about opportunity, and I'd also impress the time frames are unlikely to be what people expect them to be. Meaning it is, in our view, there is a greater likelihood that time frames ultimately will become compressed.

And as a result of all that, the need to get onto this fast is really, really necessary. Opportunities will disappear just as fast as risks will emerge, and many countries around the world are spending a lot of time trying to figure out strategically where opportunity might lie, and governments trying to enable their companies to benefit from that as a means of ultimately strengthening their economy.

And we believe that, given the potential efficiencies that can be gained, innovation benefits that can be gained, export opportunities that can come from all that, and potential for leaders of sectors to either cement that leadership or to erode their leadership, will hinge on their reaction to these types of issues.

As a result, a focus on the opportunity equal to the risk is really going to be important.

[0:50.23.8]

GIGI DAWE: Thank you. Now, I'm going to actually take this to a bit more of a personal level for both of you. I'd like you to both respond to how your involvement on the expert panel has changed your perspective on sustainable finance. What have you learned that you would like to highlight to other board members? Andy?

ANDY CHISHOLM: I would simply say it's like just about anything else in life: When you start with a very low level of understanding, you spend very little time on it. The more that you start to understand, the deeper you get, and the more your field of vision expands, and you realize the depth of some of the opportunities and some of the risks. And I think that that certainly occurred with us, and it struck us on many levels.

It struck us on company levels related to our own companies we're attached to; it struck us on a national level, strategically and what it means for Canada; it struck us on the level of just pure potential for innovation and other themes. The deeper you get in, the deeper you understand it, the more you start to realize the complexity, but the depth and the opportunity here.

GIGI DAWE: Interesting. Tiff?

TIFF MACKLEM: I came at this, I have more of a finance risk background, and I came at it from that perspective; I'm not a climate expert. So, a few things I learned: one was, obviously risk and disclosure are important part of this, but the bigger part is probably strategy. And, you know, ultimately the companies that are going to do well over the next quarter century are the companies that embed this in strategy.

The second thing that I learned was, I came at this thinking largely about transition. You know, we hear, you know, we have Canada has a target: GHG emissions reduced by 30 percent below 2005 by 2030. You tend to think of it as largely a transition issue. But even under Paris, even keeping global temperature below 2 degrees increase, we're going to see more and more physical effects of climate change.

We are starting to see it: more forest fires, more flooding, more extreme heat days, more wind; certainly, if you're in the U.S., more hurricanes. We're going to be seeing a lot more of that in the next 25 years, even under the best scenarios. And that has huge implications on the valuation of many of our assets, and on the investments that we're going to need to live comfortably and safely in a world with more extreme weather.

So, our infrastructure, our railways, our GO trains, you know, you've got to make sure the subways don't flood. Our basements, our communities that are surrounded by forests. You know, we're going to have to build more resilience into all of this infrastructure that we rely on every day, and that's going to take a lot of investment.

And I don't think, I don't think the investment community, I don't think the business community, I don't think Canadians fully appreciate the scale. If we want to live comfortably in a world, even a 2 degrees Celsius, there are big investments we're going to need to make to adapt to that reality.

ANDY CHISHOLM: Canada itself has got a couple of trillion dollars that have to get reallocated in different directions over the next couple of decades, and these time frames always seem so distant: a way station being 2030, a long-dated objective, 2050. 2050 sounds like, 'Oh my goodness, my kids are almost through their careers at that point.'

But the reality is, we're not saying that's when you start; they're saying that's when we have to have arrived. With this massive energy transition and massive economic transition, we must have arrived in that time frame.

As a result, 2030 is the current investment cycle.

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2050 means investments 2030, 2040. And so the time frames that we're talking about really are now kind of time frames. And the size and the scale of the money and the investment opportunity that is going to shift, is tremendous.

The flip side to that is that there is a risk that repricing happens rapidly in financial markets when people start to appreciate risks more acutely, and that rating agencies and others start to more squarely incorporate these issues into their ratings. And that affects the ratings of sovereigns and municipals and other levels of government, because they start to say, Oh my goodness: you have the backstop for healthcare on all these issues; you have the backstop for flood control and fire control; your taxes are going to be impacted by business disruption, etcetera, etcetera.

And all of a sudden, these factors are going to start driving financial considerations. And I think we need to be really aware right now, otherwise we're going to be surprised and shocked when it comes at us.

GIGI DAWE: Thank you. I think that's everything I had, all of the questions I have. But I would like to ask both of you if you have any conclusions or summary key points that you would like to outline? Takeaways for a board?

ANDY CHISHOLM: Get started. You're going to define your own journey in different respects; every company is different, situation is different. But it's always the inertia. It's always the big debate about should we, or how, or how important, whatever it is. But what we were just talking about – getting involved in the dialogue, getting started – builds your appreciation very rapidly.

And if your experience is similar to that that we experienced, you're going to find very quickly you wished you'd started a year, or two, or five, previously.

GIGI DAWE: Tiff?

TIFF MACKLEM: One thing that we saw was that there's actually quite a lot of activity going on within many, certainly large financial institutions, and particularly among the younger employees, they are very engaged in this issue. They *are* looking 25 years out; that is their career.

But it is not always as strategic and as organized as it could be, and I think boards have an opportunity with management to really harness this within their organizations and get it more coordinated within the large financial institutions.

There are also certain things that the financial community could do together to help the whole community. So, you talked about taxonomy: no one financial institution can create a taxonomy for Canada. They need to work with their competitors, they probably need to work with some independent – an independent body that can help to do this – on data and information.

Again, there are always going to be things that they compete with, here, in terms of the development of products. But you know, one of our recommendations is that the government, together with the financial community, should create a Canadian centre for, you know, climate information and analytics, to provide an information base that will be critical to scaling sustainable finance.

You know, that is something that I think they should all consider contributing to and being members of, because our view is, they'll get a lot of value out of that.

So yeah, get started. Get organized, get started, and start to move with more speed.

GIGI DAWE: Okay. Well, thanks very much, Tiff Macklem and Andy Chisholm, both members of the Expert Panel. First of all, thank you for your tremendous work on the Expert Panel and on putting this final report together. A very, actually, a very interesting read, and a compelling read in terms of where Canada needs to focus around sustainable finance.

And thank you so much for your time today. This has been very helpful, thanks.

[1:00:03.9]

TIFF MACKLEM: It's been a real pleasure. And let me just take the opportunity, CPA has been very supportive of this. You've hosted a number of roundtables for us which were instrumental as we clarified our own thinking and refined and developed our recommendations. So, appreciate all your support through this process.

ANDY CHISHOLM: Absolutely. And one thing that we all have done is found ourselves talking about our report a lot, but the frustration we often have is, we're just all talking, and we're not getting these things progressed. And CPA is showing some leadership, taking some action, trying to build competence throughout the system, and that's to be applauded.

If everybody, instead of simply talking, took that approach of What am I going to do now, we'd be in great shape.

GIGI DAWE: Thank you. One final thing: Where will people find this final report?

TIFF MACKLEM: You can find it on Environment Canada's website. There is also an interim report, and if you're really ambitious, we would recommend actually you read the two together. The interim report is really more about the state of sustainable finance in Canada, and it outlines a number of the, I would say, the barriers, the obstacles. The final report are really the recommendations that try to cut through those obstacles.

So we view the two things as a package, and you can find them both on Environment Canada or the Department of Finance website.

ANDY CHISHOLM: And, while it's addressed to the government, and there's a lot of issues relevant to the government and suggestions about actions, I think it's important for everybody to internalize: We can't wait for the government to tell us what to do. This is everybody, in their own way, trying to determine how, strategically, to position themselves. And we offer a lot of suggestions.

GIGI DAWE: Great. Thank you very much.

TIFF MACKLEM: Pleasure.

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