CANADIAN CREDIT UNIONS AND EFFECTIVE CLIMATE GOVERNANCE

COOPERATING FOR A SUSTAINABLE FUTURE

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ABOUT THE CANADIAN CREDIT UNION ASSOCIATION:

CCUA is the national trade association that provides services to Canada's 197 credit unions, caisses populaires (outside of Quebec) and regional Central organizations. In aggregate, the credit union system controls approximately $296 billion in assets – representing a 6.4 percent share of domestic assets held by all Canadian deposit-taking institutions – and serves more than 6 million Canadians. Credit unions operate from 2,214 locations nationwide, including being the sole financial institution in 380 communities. All credit unions are co-operative financial institutions that are regulated provincially or federally, and are 100 percent owned and controlled by the people who bank with them: their members. Credit unions exist to improve the economic and social well-being of their member customers and their primary motivation is providing quality products and services to those members. To learn more about the credit union difference and find a credit union near you, visit www.ccua.com.

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The Canada Climate Law Initiative (CCLI) provides businesses and regulators with climate governance guidance so that they can make informed decisions in the transition to a net-zero economy. Powered by the nation's top expertise, we engage with boards of directors and trustees to ensure businesses, pension funds, and asset managers understand their legal duties with respect to climate change. Our legal research offers important insights in a rapidly transforming policy landscape.

CCLI acknowledges that it is situated on the traditional, ancestral, and unceded territory of the **xʷməθkʷəy̓əm** (Musqueam) and is committed to working in partnership with Indigenous Peoples on effective climate governance.

CCLI is supported financially by family foundations, and is established at the Centre for Business Law, University of British Columbia Peter A. Allard School of Law and Osgoode Hall Law School, York University.

EXECUTIVE SUMMARY

As the impacts of climate change become increasingly evident, directors of credit unions should recognize climate governance and management as a strategic issue within their institutions. This guide emphasizes the importance of understanding directors' duties, cooperative principles, and the profound effects of extreme weather events on credit union members. It is a valuable resource for directors in understanding the legal landscape, physical and transition risks associated with climate change, and best practices developed globally. It offers practical suggestions for board oversight and emphasizes the importance of engaging with members to align their credit unions' commitments with transitioning to a more sustainable economy.

The changing expectations and regulations, including OSFI's Guideline B-15, call for financial institutions to proactively address climate-related risks and opportunities. It is crucial for directors of credit unions to stay informed about forthcoming changes in regulations to ensure their credit unions are well-prepared.

Directors' duties under provincial legislation require them to act in the best interests of the credit union and exercise due care and skill. The proposed guidance from regulatory bodies and accounting standards foundations will assist directors in fulfilling their duties regarding climate risks and opportunities.

Extreme weather events, such as flooding, wildfires, and heatwaves, are already impacting communities across Canada, posing significant challenges to credit union members. By embracing climate governance and management, credit unions can effectively contribute to the transition towards sustainability and a net-zero emissions economy, ensuring the well-being of their members. With Canada committed to achieving net-zero emissions by 2050, credit unions should make timely decisions to direct capital towards ambitious emissions reduction targets and sustainable economic activities. Strong governance, risk management, and strategic planning are vital for credit unions to adapt to government actions and ensure a just and equitable transition that benefits their members and communities.

Credit unions can utilize their influence to facilitate a just transition by supporting their members and local businesses in reducing their emissions. By providing products and services that address the impacts of physical events and transition risks, credit unions can create and capture value while supporting the well-being of their members and communities.

This guide is essential for credit union boards, whether they are early in integrating climate governance or already engaged in climate-related effective governance initiatives. It offers insights and enhanced board oversight suggestions to ensure effective governance, strategy, risk management, target-setting, and decarbonization commitments. Members interested in credit

unions' role in the transition to a sustainable economy will find clarity on directors' fiduciary responsibilities.

In conclusion, credit union directors should recognize climate governance and management as a strategic issue that aligns with their cooperative principles and member-centric focus. By proactively addressing climate-related risks and opportunities, directors can guide their credit unions toward a resilient and sustainable future to benefit their members and the communities they serve.

TABLE OF CONTENTS

I. INTRODUCTION 3
A. THE ROLE OF CREDIT UNION DIRECTORS 3
B. WHY CREDIT UNION DIRECTORS SHOULD CARE 4
C. GUIDE STRUCTURE 4

II. DIRECTOR'S DUTIES OF OVERSIGHT AND MANAGEMENT OF CLIMATE-RELATED RISKS AND OPPORTUNITIES OF PROVINCIALLY REGULATED CREDIT UNIONS 6

III. WHAT CLIMATE-RELATED RISKS SHOULD CANADIAN CREDIT UNIONS BE FOCUSING ON? 9
A. PHYSICAL RISKS 9
1. HOW PHYSICAL RISKS AFFECT THE LOCAL COMMUNITY 12
i. HEALTH IMPLICATIONS, PANDEMICS AND DISEASES 13
ii. AGRICULTURAL CHALLENGES AND FOOD SECURITY 14
B. TRANSITION RISKS 16
1. POLICY RISKS 17
2. FINANCIAL RISKS 18
3. OPERATIONAL RISKS 19
4. REPUTATIONAL RISKS 19
5. TECHNOLOGICAL RISKS 20
6. HUMAN CAPITAL RISKS 21
7. LIABILITY RISKS 21
C. SYSTEMIC RISK 23

IV. WHAT CLIMATE-RELATED OPPORTUNITIES SHOULD CANADIAN CREDIT UNIONS BE FOCUSING ON? 25
A. STANDING OUT IN COMPETITIVE MARKETS 25
B. THE DEVELOPMENT OF NEW PRODUCTS AND SERVICES 26
C. ATTRACTING AND RETAINING TALENT 27
D. IMPROVING OPERATIONAL EFFICIENCY 27
E. UPHOLDING COMMUNITY-FOCUSED VALUES 27

V. STEPS FOR EFFECTIVE GOVERNANCE OF CLIMATE-RELATED RISKS AND OPPORTUNITIES 28
A. ELEMENTS OF EFFECTIVE CLIMATE GOVERNANCE 28
1. GOVERNANCE 30
2. RISK OVERSIGHT AND MANAGEMENT 31
i. SCENARIO ANALYSIS 34
3. STRATEGY 35
4. TARGETS AND METRICS 37
i. METRICS 37

ii. TARGETS ... 38
5. DISCLOSURE AND COMMUNICATION ... 40
B. GUIDING QUESTIONS TO HELP DIRECTORS UNDERSTAND THEIR CURRENT POSITION AND FUTURE DIRECTION ... 42
C. CELEBRATING WHAT CANADIAN CREDIT UNIONS HAVE ACHIEVED SO FAR ... 47
1. VANCOUVER CITY SAVINGS CREDIT UNION (VANCITY) ... 47
2. OMISTA CREDIT UNION ... 48
3. NBTA CREDIT UNION ... 48
4. KINDRED CREDIT UNION ... 48
5. INNOVATION CREDIT UNION ... 48
6. ASSINIBOINE CREDIT UNION ... 49
7. EAST COAST CREDIT UNION ... 49
8. COAST CAPITAL SAVINGS ... 49

VI. CONCLUSION ... 51

APPENDICES ... 52
A. USEFUL RESOURCES FOR CREDIT UNIONS ... 52
B. CREDIT UNION DISCLOSURE CONSIDERATIONS PER SECTOR ... 55
C. THE GENERAL DUTIES OF DIRECTORS UNDER THE LAW ... 55
1. DUTY OF CARE ... 56
2. STANDARD OF CARE ... 57
D. CLIMATE DISCLOSURE METRICS RELEVANT TO FINANCIAL INSTITUTIONS ... 62
E. TARGET SETTING RESOURCES ... 62
F. SUMMARY OF CLIMATE GOVERNANCE FRAMEWORKS ... 64

I. INTRODUCTION

Climate change is widely acknowledged as a grave threat to our planet and humanity. In Canada, 56% of adults recognize climate change as a significant problem, with 64% reporting its impacts on their local area to "some or a great extent".[1] The release of the Intergovernmental Panel on Climate Change's (IPCC) sixth summary report in March 2023 further highlights the escalating costs of climate change in Canada.[2] For instance, wildfires have become the most significant threat, resulting in annual costs exceeding $1 billion in six out of the last ten years.[3] Climate change is also projected to cause above-average sea level rise in the Atlantic provinces,[4] leading to habitat loss in Nova Scotia's kelp beds, which are crucial for fish populations.[5] Ocean acidification, resulting from high carbon dioxide levels, poses risks to squid, cod, and halibut,[6] and the shellfish and lobster industries could face a decline of up to 54%.[7] While warmer temperatures may extend the growing season for prairie farmers, the negative impacts of climate change, such as water scarcity, are likely to outweigh any benefits.[8] Northern provinces face challenges with melting permafrost and ice thaw damaging infrastructure and transportation networks,[9] as evidenced by the flooding of the rail line in Churchill, Manitoba, in 2017.[10] Furthermore, intensified extreme weather events disrupt international supply chains, markets, finance, and trade, leading to reduced availability and increased prices of goods, ultimately impacting Canadian exports.[11]

A. THE ROLE OF CREDIT UNION DIRECTORS

Credit unions have a pivotal role in assisting communities in mitigating and adapting to climate change by exploring new avenues to support local initiatives. As the most democratically structured financial institutions, credit unions offer some of the most effective community and environmental financing solutions.[12] Their democratic approach to governance, coupled with their close ties to communities, positions them better than other financial institutions to champion climate governance initiatives.[13] While several credit unions have implemented sustainable practices within their organizations, there remains a need to prioritize climate governance as a strategic issue. Enhanced climate governance at the board level is essential. Directors bear the duty to exercise care, skill, and diligence in assessing the potential impacts of climate change on the credit union and its members, including actively monitoring and managing climate risks, integrating climate considerations into strategic planning, setting risk appetite and

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[1] James Bell et al, *In Response to Climate Change, Citizens in Advanced Economies Are Willing To Alter How They Live and Work* (Pew Research Center, 2021).

[2] Intergovernmental Panel on Climate Change, *AR6 Synthesis Report: Climate Change 2023* (UN IPCC, 2023).

[3] *Climate Change 2022: Impacts, Adaptation and Vulnerability. Contribution of Working Group II to the Sixth Assessment Report of the Intergovernmental Panel on Climate Change.* (UN IPCC, 2022) at 1949 [hereafter Climate Change 2022].

[4] *Ibid* at 1964.

[5] *Ibid* at 1951.

[6] *Ibid* at 1950.

[7] *Ibid* at 1961.

[8] *Ibid* at 1957.

[9] *Ibid* at 1974.

[10] Lauren McNabb, "Photos show widespread damage on rail line to Churchill", *Global News* (13 June 2017), online: <https://globalnews.ca/news/3523871/photos-show-widespread-damage-on-rail-line-to-churchill/>.

[11] Climate Change 2022, *supra* note 3 at 1931.

[12] Benjamin J Richardson, "Putting Ethics into Environmental Law: Fiduciary Duties for Ethical Investment" (2008) 46 Osgoode Hall Law J 243 at 16–177.

[13] *Ibid* at 20.

tolerance, and overseeing the implementation of appropriate mitigation and adaptation measures. Guided by cooperative principles and values, such as 1) voluntary and open membership, 2) democratic member control, 3) member economic participation, 4) education, training, and information-sharing, 5) cooperation among credit unions, 6) autonomy and independence, and 7) concern for the community, directors can contribute to the resilience and sustainability of their institutions while promoting the best interests of their members and communities.

B. WHY CREDIT UNION DIRECTORS SHOULD CARE

Climate change affects every facet of life, including finance, business, livelihoods, global trade, and social stability. These disruptions directly impact credit union members. By taking strategic steps, credit unions can better inform and prepare themselves for climate-related impacts that will affect their members and communities. This preparedness ensures that credit unions are best equipped to support their members during times of crisis.

The Office of the Superintendent of Financial Institutions (OSFI) Guideline B-15 emphasizes the expectation that financial institutions manage climate-related risks at a strategic level, fostering resilience by addressing vulnerabilities and adopting a forward-looking approach to climate change integration.[14] This Guideline holds significance for provincially regulated credit unions, as it is highly anticipated that provincial regulators will follow suit with OSFI and introduce similar requirements for provincially regulated financial institutions in the near future.

C. GUIDE STRUCTURE

Section II of the Guide delves into the specific duties of credit union directors as outlined by provincial law, highlighting their alignment with climate governance requirements. By understanding these duties, directors can effectively fulfil their responsibilities in addressing climate change and its implications for their credit unions and communities.

Section III provides an in-depth exploration of the physical and transition risks that Canadian credit unions should consider as integral components of their business strategy, risk frameworks, and community support functions. This section highlights the profound impact of climate risks on communities and underscores the importance of proactive measures in building resilience and adaptation.

Section IV unveils the multitude of opportunities available to credit unions in a rapidly changing climate. By embracing innovative approaches, credit unions can seize these opportunities to contribute to sustainable development, support green initiatives, and drive positive change within their communities.

Section V delves into the essential aspects of effective climate governance for credit union boards. It explores various reporting frameworks and guidelines, equipping directors with valuable tools to assess their knowledge and evaluate their credit union's current position.

[14] Office of the Superintendent of Financial Institutions Canada, *Guideline B-15 Climate Risk Management* (OSFI, 2023) [hereafter OSFI Guideline B-15].

Thought-provoking questions guide directors in determining their next steps on the climate governance journey. This section also showcases exemplary initiatives by Canadian credit unions that have excelled in climate governance, serving as inspiration and practical examples for other credit unions.

While some credit unions fall under federal regulation through the *Bank Act*,[15] the focus of this Guide primarily centres on provincially regulated credit unions in the Canadian provinces. However, it also serves as valuable best-practice guidance for credit unions regulated at all levels of the Canadian government. For federally regulated credit unions, the Canada Climate Law Initiative (CCLI) guide, "*Banking on a Net-Zero Future* by Janis Sarra and Norie Campbell, already provides relevant information on statutory and fiduciary duties.[16] Note: Credit unions do not currently operate in the Canadian territories.

[15] *Bank Act*, SC 1991 c 46, ss 157-158.

[16] Janis Sarra & Norie Campbell, *Banking on a Net-Zero Future: Effective Climate Governance for Canadian Banks* (Canada Climate Law Initiative, 2022) [hereafter Sarra & Campbell].

II. DIRECTOR'S DUTIES OF OVERSIGHT AND MANAGEMENT OF CLIMATE-RELATED RISKS AND OPPORTUNITIES OF PROVINCIALLY REGULATED CREDIT UNIONS

In Canada, the legal obligations of care and due diligence are generally the same for all organizations. Therefore, the responsibilities of directors in banks, federally regulated credit unions, and provincially regulated credit unions are similar.[17] Canadian credit union directors have a crucial role to play in climate governance. As fiduciaries, directors are entrusted with the responsibility of overseeing the credit union's operations and ensuring its long-term viability. In the face of climate change, directors should engage with their members on how to consider and address climate-related risks and opportunities within their decision-making processes.

Directors have a duty to exercise care, skill, and diligence in assessing the potential impacts of climate change on the credit union and its members, including actively monitoring and managing climate risks, integrating climate considerations into strategic planning, setting risk appetite and tolerance, and overseeing the implementation of appropriate mitigation and adaptation measures. By fulfilling their duties in relation to climate governance, credit union directors can contribute to the resilience and sustainability of their institutions and promote the best interests of their members and communities. Credit unions have a distinctive governance structure where members serve as customers, owners, and beneficiaries. This structure allows credit unions to involve members and the community in climate governance. It provides a solid foundation for credit unions to address climate change.

This section focuses on the climate governance responsibilities of credit union directors, focusing on their unique structure and the seven cooperative principles and values. For a detailed legal discussion on directors' duties and the standard of care expected in exercising those duties, please refer to the document's appendix.

The Financial Services Regulatory Authority of Ontario (FSRA) 2016 handbook offers valuable guidance to all credit union directors, outlining their responsibilities as follows:

- setting the credit union's strategic plan and overseeing its progress towards strategic goals;
- defining the credit union's business objectives;
- establishing the credit union's risk appetite and tolerance for managing financial, operational, and strategic risks;
- reviewing and approving the credit union's policies and annual business plan.
- ensuring the appointment of qualified and competent management to implement effective risk measurement and management practices;
- implementing succession plans for key management and staff members;
- reviewing and approving the annual internal and external audit plans;
- reviewing reports from the Audit Committee and ensuring appropriate action is taken on recommendations;

[17] Kevin P McGuinness, *Canadian Business Corporations Law*, 3rd ed (LexisNexis Canada, 2017), s §14.12 [hereafter Kevin P McGuinness]; Hartley R Nathan QC, "Business Judgment Rule, Diligence and Good Faith" (2022) LexisNexis at 5 [hereafter Hartley R Nathan QC].

- monitoring the credit union's performance to ensure adherence to policies and the annual business plan; and
- overseeing community relations and safeguarding members' rights.[18]

The handbook also emphasises that, at a minimum, the board of directors should:

- understand and fulfil its responsibilities;
- exercise independent judgment;
- establish training requirements and qualifications for directors and the Audit Committee;
- establish appropriate and prudent risk management policies;
- oversee risk management policies and obtain reasonable assurance that the credit union is adhering to its risk management policies for significant risks;
- establish the responsibilities, accountability and authority of the CEO, the Audit Committee and other Board committees as applicable;
- establish standards of business conduct and ethical behaviour;
- select and evaluate the effectiveness of the CEO;
- ensure management is properly skilled and qualified to execute the board's objectives;
- establish the business objectives of the credit union consistent with co-operative principles and approve the credit union's business strategy and business plans;
- evaluate the credit union's actual operating and financial results against business plans and address any material variances;
- evaluate the board's effectiveness and oversee the duties of the Audit Committee;
- ensure that employee compensation plans are consistent with prudential incentives; and
- affirm a controlled environment and ensure that the credit union is in control.[19]

Being a director of a credit union in the context of climate governance is both challenging and rewarding, and each director on the Board should understand their role in establishing and maintaining a strong corporate governance structure for the credit union. The members of the credit union rely on the directors to guide the organization towards a sustainable future and a director's primary responsibility is to ensure that the credit union effectively addresses the financial service needs of its members. The Board is accountable for setting the credit union's strategic direction and overseeing management to ensure that the actual operational performance aligns with the strategic plan. Directors must also ensure that the credit union complies with the relevant laws, the cooperative principles, as well as the credit union's own bylaws, policies, and procedures.[20]

Striking a balance between a credit union's dedication to its members and the need to adapt to climate-related changes in laws, global perceptions, and directors' duties can create conflicts, potentially alienating specific segments of the membership and affecting the credit union's long-term viability. Nevertheless, credit unions can effectively tackle this challenge by leveraging their cooperative principles and values. Through proactive and constructive conversations with their members, credit unions can collaboratively develop climate-related strategies that prioritize the

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[18] Deposit Insurance Corporation of Ontario, *Director's Handbook 2016* (FSRAO, 2016) at 6 [hereafter *Director's Handbook 2016*].
[19] *Ibid* at 18.
[20] *Ibid* at 3.

best interests of both the members and the community. This approach aims to mitigate and manage the impact of climate-related risks, ensuring the credit union's sustainability.

For credit unions to play a crucial role in climate governance, they can use the seven cooperative principles and values to drive sustainable practices and environmental stewardship.

1. The principle of voluntary and open membership encourages individuals and businesses to join credit unions, forming a collective force to address climate-related challenges.
2. The democratic member control principle ensures that credit unions operate on a one-member-one-vote basis, allowing all stakeholders to participate in decision-making processes related to climate governance.
3. The principle of member economic participation enables credit unions to allocate resources towards sustainable initiatives and investments, promoting the transition to a low-carbon economy.
4. Through education, training, and information-sharing, credit unions uphold the principle of education, ensuring that members and communities are well-informed about climate issues and the importance of sustainable practices.
5. Credit unions also prioritize the principle of cooperation among themselves and other cooperative organizations, to develop collective strategies and collaborative efforts to combat climate change.
6. By upholding the principle of autonomy and independence, credit unions have the freedom to advocate for climate policies and engage in partnerships that align with their sustainable values.
7. The concern for community principle drives credit unions to actively contribute to local and global sustainability efforts, supporting projects and initiatives that promote climate resilience and mitigate environmental risks. In summary, credit unions, guided by their cooperative principles and values, assume a vital role in climate governance by mobilizing resources, fostering awareness, and promoting sustainable practices for the betterment of society and the planet.

Credit unions, with their membership-based structure and commitment to cooperative principles and values, are uniquely positioned to embrace climate governance within their organizations. By integrating climate governance practices, credit unions can directly address the needs of their members who are affected by climate-related events, both acute and chronic. This proactive approach enables credit unions to enhance their ability to support and assist members impacted by extreme weather events. Moreover, by collaborating with their members and the broader community, credit unions can collectively work towards mitigating and managing the future impacts of climate change. This collaborative strategy strengthens the credit union's resilience and fosters a sense of shared responsibility in navigating the challenges posed by climate change.

III. WHAT CLIMATE-RELATED RISKS SHOULD CANADIAN CREDIT UNIONS BE FOCUSING ON?

Climate-related risks are distinct due to their unpredictable nature. However, they can still be anticipated despite uncertainties regarding their exact manifestation and timing.[21] Unlike other risks managed by credit union boards, climate physical and transition risks possess unique characteristics.

- Climate-related risks cause extensive and potentially permanent damage, necessitating a preventive and proactive approach to their mitigation and management.
- There is uncertainty regarding the timing, extent, and intensity of these risks. While climate changes are expected, it is challenging to predict the precise outcomes, geographical concentrations, intensity of physical risks, and the level of disruption associated with the transition, making mitigation and management complex.
- These risks are non-linear, making it difficult to forecast their impact solely based on historical data.[22]
- The severity of these risks is dependent on current actions taken in the short term to mitigate and adapt to changing conditions.
- These risks are likely to worsen as conventional risk management tools become less accessible or applicable, including challenges related to insurance accessibility and affordability, reduced resources for disaster relief, and a scarcity of secure collateral assets as lenders devalue assets lacking insurance coverage.[23]

A. PHYSICAL RISKS

Changes in weather patterns, such as increased precipitation and temperature, are contributing to more frequent and severe weather events. These natural disasters are becoming increasingly extreme and catastrophic,[24] impacting credit unions, communities, and their members. Therefore, credit union board members should identify, understand, measure, manage, and mitigate physical climate risks.

> ***Physical risk*** is the risk of damage to individuals, communities and property arising from climate-related catastrophes and long-term frequent and persistent shifts in weather patterns.

[21] Department of Financial Services, *Guidance for New York Domestic Insurers on Managing the Financial Risks from Climate Change* (New York DFS, 2021) at 5; Basel Committee on Banking Supervision, *Climate-related risk drivers and their transmission channels* (Bank for International Settlements, 2021) [hereafter Basel Committee on Banking Supervision].

[22] Basel Committee on Banking Supervision, *supra* note 21.

[23] Insurance Bureau of Canada, "Severe Weather in 2022 Caused $3.1 Billion in Insured Damage – making it the 3rd Worst Year for Insured Damage in Canadian History", (18 January 2023), online: *IBC* <http://www.ibc.ca/ns/resources/media-centre/media-releases/severe-weather-in-2022-caused-3-1-billion-in-insured-damage-%E2%80%93-making-it-the-3rd-worst-year-for-insured-damage-in-canadian-history> [hereafter Insurance Bureau of Canada 2022]; Ceres Accelerator for Sustainable Capital Markets & Filene Research Institute, *The Changing Climate for Credit Unions*, Report No. 561 (2022) at 26, 28 [hereafter Ceres Report].

[24] Sarra & Campbell, *supra* note 16 at 28–29; *Canada in a Changing Climate: National Issues Report* (Ottawa, ON: Government of Canada, 2021).

In 2022, insured losses reached $3.1 billion in Canada, making it the third-highest year for such losses.[25] This figure surpasses the insured damage costs of $2.1 billion in 2021[26] and $2.4 billion in 2020.[27] The cost of climate-related physical risks is expected to rise.

- In the next 20 years, the annual total for flood damage to real estate alone is projected to reach $13.6 billion.[28]
- By 2050, an annual increase of $5.4 billion could be added to the repair bill for railways and roads.
- Damage to the electrical grid could reach $4.1 billion annually by 2100.[29]

This trend becomes evident as we observe the significant milestones reached by wildfires in Alberta and Nova Scotia in 2023. The Barrington Lake blaze in Nova Scotia has already burned 20,000 hectares, surpassing the previous record set in 1976 of 13,000 hectares.[30] In Alberta, over 500 wildfires have occurred this year, and with more than a million hectares burnt so far, Alberta is on track to break the 1981 record of 1.36 million hectares.[31] These extreme weather events will lead to higher insurance claims, raising concerns about the affordability and availability of insurance, and its impact on communities.[32]

Craig Stewart, Vice-President of Climate Change and Federal Issues at the Insurance Bureau of Canada (IBC) commented that IBC is, "seeing early signs that property insurance may become less affordable or even unavailable as global reinsurers shift capacity away from riskier countries".[33] Higher insurance prices can prevent individuals from insuring their physical assets, which could serve as collateral for loans from credit unions.

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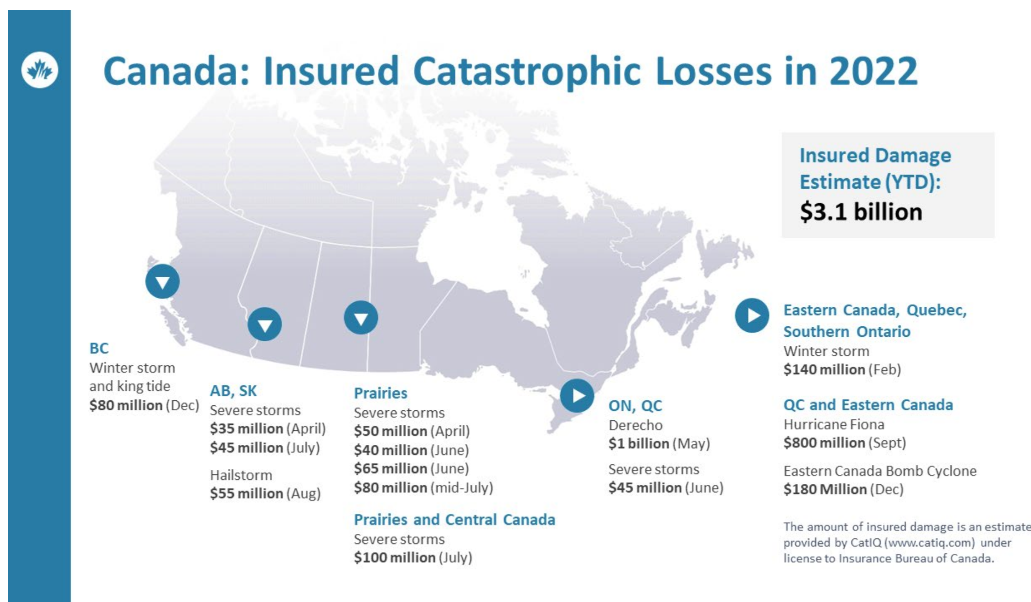
[25] Insurance Bureau of Canada 2022, *supra* note 23; Ceres Report, *supra* note 23 at 26, 28.
[26] Insurance Bureau of Canada, "Severe Weather in 2021 Caused $2.1 Billion in Insured Damage", (18 January 2022), online: *IBC* <http://www.ibc.ca/ns/resources/media-centre/media-releases/severe-weather-in-2021-caused-2-1-billion-in-insured-damage/>.
[27] Insurance Bureau of Canada, "Severe Weather Caused $2.4 Billion in Insured Damage in 2020", (18 January 2021), online: *IBC* <http://www.ibc.ca/on/resources/media-centre/media-releases/severe-weather-caused-$2-4-billion-in-insured-damage-in-2020>.
[28] Canadian Institute for Climate Choices, *Under Water: The Costs of Climate Change for Canada's Infrastructure* (CICC, 2021) at v.
[29] *Ibid*.
[30] Leyland Cecco, "'Unprecedented' Nova Scotia wildfires expected to worsen, officials warn", *The Guardian* (31 May 2023), online: <https://www.theguardian.com/world/2023/may/31/nova-scotia-wildfires-canada>.
[31] Alanna Smith, "Alberta wildfires easing but province still on its way to record its worst fire season ever", *Globe Mail* (23 May 2023), online: <https://www.theglobeandmail.com/canada/alberta/article-alberta-worst-wildfire-season-2023/>.
[32] DBRS Morningstar, *Assessing ESG Risks in the Canadian Credit Union Industry*, Commentary (DBRS Morningstar, 2020) [hereafter DBRS Morningstar]; Insurance Bureau of Canada 2022, *supra* note 23.
[33] Insurance Bureau of Canada 2022, *supra* note 23.

Figure 1: Canada's Insured Catastrophic Losses in 2022



Source: Insurance Bureau of Canada, "Severe Weather in 2022 Caused $3.1 Billion in Insured Damage – making it the 3rd Worst Year for Insured Damage in Canadian History", (18 January 2023).

For credit unions, the impact of physical risks can be twofold through direct and indirect impacts.

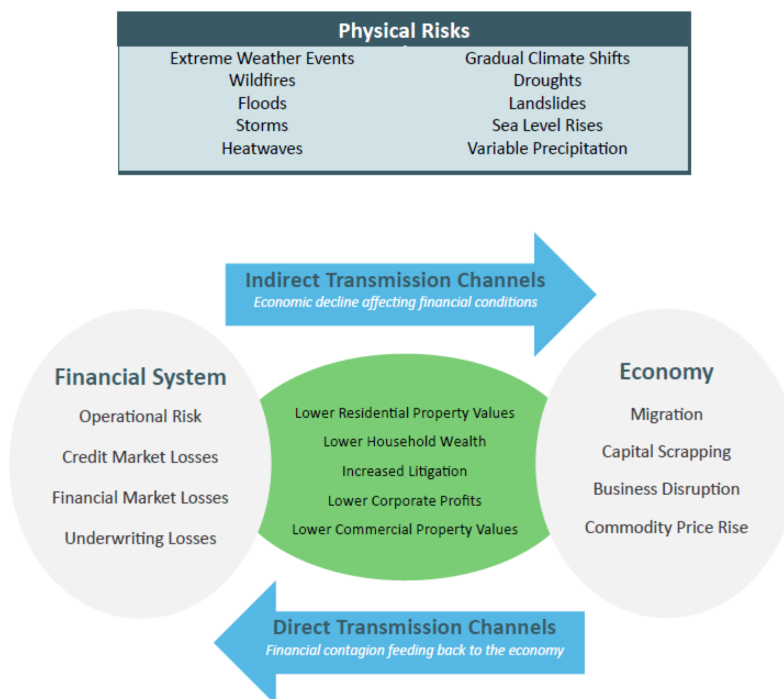
- Direct impacts of climate-related risks include physical damage to credit union property and infrastructure, which can hinder the credit union's ability to serve the community.
- Indirect impacts stem from the direct effects on credit union members. If a member is affected by a natural disaster or climate-related health emergency, it can impact their ability to repay loans. Damage to collateral tied to existing debts can also diminish its value and viability, thereby hindering the credit union's ability to enforce liens and cover unpaid debts. Consequently, physical risks increase the credit risk within a credit union's portfolio.[34] Additionally, there is the risk of stranded assets, where climate-related events render assets liabilities or significantly devalue them, leading to unforeseen or premature write-downs.[35]

According to a 2020 report by DBRS Morningstar, credit union loan portfolios have experienced low loss rates from both acute and chronic weather events.[36] This provides credit unions with an opportunity to proactively implement preventive measures to maintain low losses. Credit unions have always been exposed to concentration risk due to their close connection to local communities. This risk becomes even more pronounced for smaller credit unions when combined with climate-related physical risks. In the event of wildfires, floods, or other extreme events causing damage to homes and industries, credit unions cannot easily rely on a broader network across Canada or the province to offset the losses within that specific community. Considering

[34] Patrick Bolton et al, *The green swan - Central banking and financial stability in the age of climate change* (Bank for International Settlements, 2020) at 19 [hereafter Bolton et al].
[35] Richard Baron, *Divestment and Stranded Assets in the Low-carbon Transition* (OECD Headquarters, Paris: OECD, 2015).
[36] DBRS Morningstar, *supra* note 32 at 5.

the potential negative impact of physical risks on credit unions, their members, and the local community, credit unions should collaborate with their members in developing strategies to respond to such events. Implementing effective processes can help mitigate or even prevent the adverse effects of these events.

Figure 2: Physical Risk Transmission Channels



Source: Adapted from Ceres Accelerator for Sustainable Capital Markets & Filene Research Institute. The Changing Climate for Credit Unions, Report No. 561 (2022).

1. HOW PHYSICAL RISKS AFFECT THE LOCAL COMMUNITY

Extreme weather events have an impact on all Canadians,[37] although certain communities bear a greater burden. Research indicates that vulnerable, underserved, older, and poorer communities are disproportionately affected by physical risks. These communities often lack the financial means and resources to adequately prepare, adapt, and recover from such events.[38] However, studies also show that investing in local communities can help alleviate this disparity, enhancing their ability to mitigate vulnerability and improve resilience to climate-related risks.[39]

The climate-related physical risks discussed below affect all provinces and communities to different extents, thereby impacting all credit unions. These risks provide examples of how credit union members can be affected presently and, in the future, if these climate risks are not effectively addressed. Investing in appropriate defences against these physical risk impacts is crucial for communities, and credit unions are well-positioned to provide the necessary support.

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[37] Insurance Bureau of Canada 2022, *supra* note 23.

[38] Hyun Kim, David W Marcouiller & Kyle M Woosnam, "Rescaling social dynamics in climate change: The implications of cumulative exposure, climate justice, and community resilience" (2018) 96 Geoforum 129.

[39] *Ibid*.

i. HEALTH IMPLICATIONS, PANDEMICS AND DISEASES

Rising temperatures are causing the emergence of new zoonotic and vector-borne diseases.[40]

- Destruction of wildlife habitats due to climate-related events is forcing animals closer to urban areas bringing rabies from Arctic foxes, Hantavirus pulmonary syndrome from mice, and various parasites carried by coyotes, foxes, and raccoons.[41]
- Lyme disease cases have increased, with 2.4 cases in 2016 alone, compared to an average of 1.4 cases per 100,000 between 2009 and 2016,[42] primarily due to the influx of tick vectors from the United States.[43]
- Mosquito-borne diseases such as West Nile virus, Chikungunya, Dengue, and Zika viruses are also expected to spread as the vectors adapt to warmer climates.[44]

The displacement of people due to wildfires and flooding contributes to the spread of diseases. Respiratory illnesses become more prevalent as people are forced into densely populated areas following the destruction of their towns and villages.[45]

- Wildfires, like the 2016 Fort McMurray wildfire in Alberta, displaced over 80,000 people,[46] with many evacuees suffering from viral gastroenteritis.[47] The 2021 wildfire in Lytton, British Columbia, razed 90% of the town to the ground and displaced 1,000 people.[48]
- Flooding caused by heavy rainfall in areas with inadequate drainage infrastructure results in water build-up and sewage overflow, contaminating the surrounding community.[49]

Wildfires have other significant health impacts on communities. Short-term exposure to wildfire smoke is estimated to cause 54-240 premature deaths per year, while long-term exposure increases this figure to 570-2500 deaths. Fine particles and toxic gases in wildfire smoke exacerbate respiratory conditions and contaminate local food and water supplies.[50]

Climate change also poses risks to water and food security:

- Severe rainfall and flooding can contaminate rivers, lakes, and oceans with disease-causing bacteria or sewage overflow, affecting 15% of Canadians who rely on these water sources for drinking and crop irrigation.[51]
- Communities dependent on private water sources are particularly vulnerable to water-borne gastrointestinal illnesses, but even municipal systems face risks. In 2000, seven people died and hundreds got ill in Walkerton, Ontario due to a water-borne bacterium

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[40] Sarra & Campbell, *supra* note 16 at 31.
[41] *Health of Canadians in a changing climate: advancing our knowledge for action* (Health Canada, 2022) [hereafter *Health of Canadians*].
[42] Canadian Institute for Climate Choices, *The Health Costs of Climate Change: How Canada Can Adapt, Prepare, and Save Lives* (CICC, 2021) at 28 [hereafter Canadian Institute for Climate Choices].
[43] *Health of Canadians*, *supra* note 41 at 22.
[44] *Ibid*.
[45] *Ibid*.
[46] Canadian Institute for Climate Choices, *supra* note 42 at 27.
[47] Bill Mah, "Stomach bug doubles to 105 cases among Fort McMurray evacuees in Edmonton", *Edmonton Journal* (10 May 2016), online: <https://edmontonjournal.com/news/local-news/stomach-bug-doubles-to-105-cases-among-fort-mcmurray-evacuees-in-edmonton>.
[48] Sean Boynton, "IN PHOTOS: Scenes of destruction after wildfire destroys village of Lytton, B.C.", *Global News* (1 July 2021), online: <https://globalnews.ca/news/7996986/in-photos-lytton-bc-fire-aftermath/>.
[49] D Sandink, "Urban flooding and ground-related homes in Canada: an overview" (2016) 9:3 J Flood Risk Manag 193.
[50] *Health of Canadians*, *supra* note 41 at 21; Canadian Institute for Climate Choices, *supra* note 42 at 27.
[51] *Health of Canadians*, *supra* note 41.

that went untreated at a water treatment facility that was overwhelmed by heavy rainfall.[52]

- Increased temperatures contribute to the proliferation of toxic algae and pathogens in lakes, oceans, and soil, leading to crop contamination.[53]

The following impacts of climate change and associated risks extend to credit unions and their ability to serve local communities. The emergence of zoonotic and vector-borne diseases, coupled with displacement caused by wildfires and flooding, pose challenges for credit unions. As community members are affected by illness or forced to relocate, their ability to repay loans may be compromised, potentially impacting credit union portfolios. The health, including mental health, and resilience of credit union staff may also be affected, hindering their ability to provide reliable and continuous services. Additionally, the contamination of water sources and crop disruptions can disrupt local economies, affecting the financial stability of credit union members and their ability to access credit. The overall result is an increased strain on credit unions to meet the financial needs of communities amidst these climate-related challenges.

ii. AGRICULTURAL CHALLENGES AND FOOD SECURITY

Changing weather patterns, including extreme and prolonged events, have a significant impact on crop success. Factors such as shifting temperatures, precipitation levels, floods, droughts, windstorms, wildfires, and unpredictable frosts can lead to decreased crop yields or even crop failure. The failed strawberry crops in Ontario in 2012, caused by unusually high spring temperatures, serve as a notable example.[54]

Increased carbon dioxide levels in the atmosphere diminish the effectiveness of pesticides, resulting in higher pesticide and herbicide usage affecting the quality and safety of food for consumers. The nutritional value of food is also affected by elevated carbon levels, with research indicating a reduction in zinc, iron, and protein content in wheat, barley, maize, rice, sorghum, soybeans, and peas by 3% to 8%.[55] These long-term effects have implications for people's health and well-being.

Climate impacts directly affect credit unions and their ability to serve communities. The agricultural sector, relying on credit unions for support, faces crop failures and lower yields due to changing weather patterns, resulting in financial hardship for farmers, increasing loan defaults and reducing loan applications as farmers leave the industry.[56] The reduced profitability of agricultural operations can affect the credit union's loan portfolio and overall financial performance and may limit the credit union's capacity to provide loans and support local businesses and community development initiatives.

Food insecurity and higher prices strain households, creating a greater demand for credit union assistance. The struggling agricultural sector also poses financial risks for credit unions, impacting

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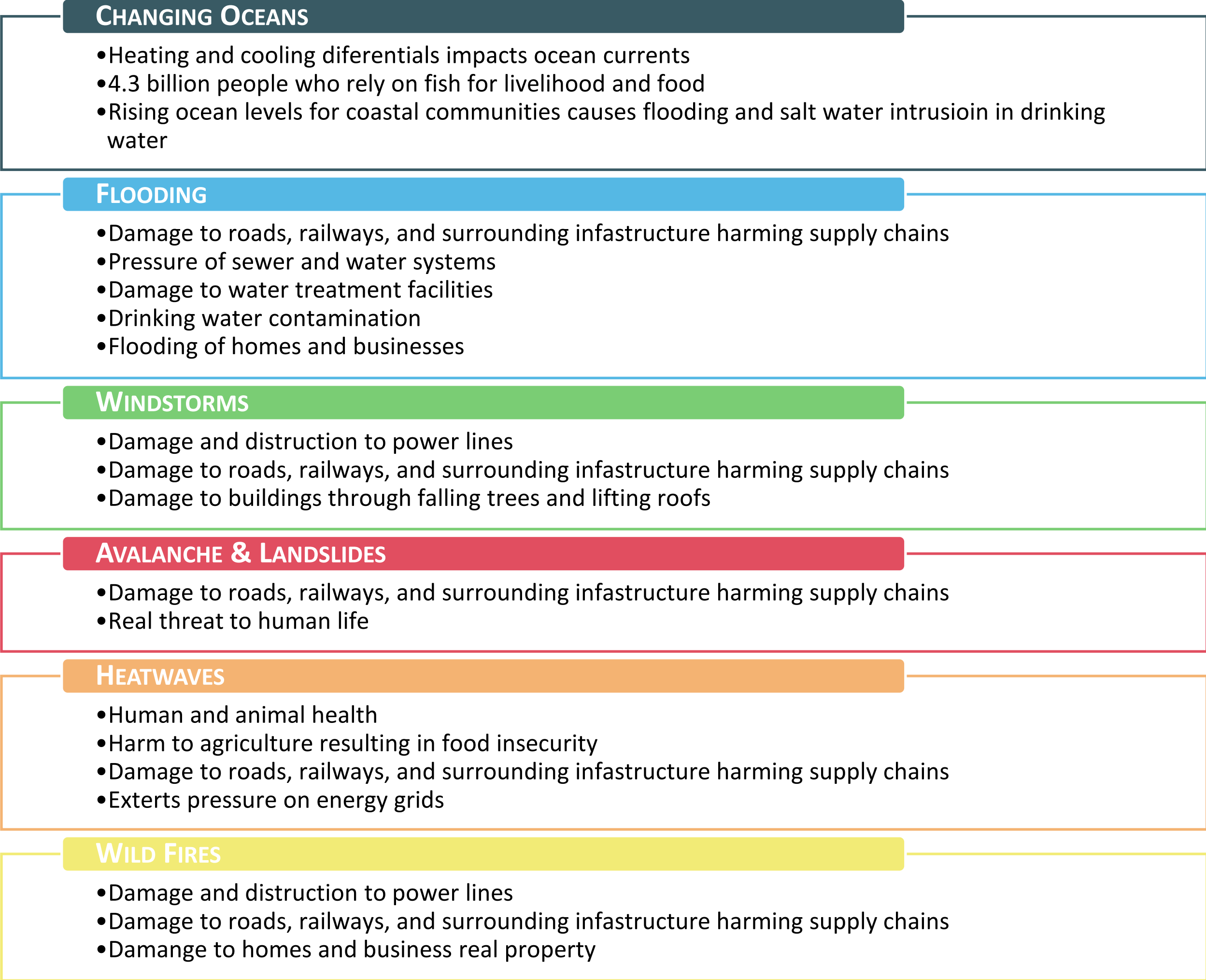
[52] *Ibid*.
[53] *Ibid* at 23.
[54] Samuel S Myers et al, "Increasing CO2 threatens human nutrition" (2014) 510:7503 Nature 139; Lee H Dietterich et al, "Impacts of elevated atmospheric CO2 on nutrient content of important food crops" (2015) 2:1 Sci Data 150036.
[55] Ibid.
[56] *Health of Canadians*, *supra* note 41.

their loan portfolio and ability to support local businesses. The repercussions of food insecurity, driven by the decline in crop production and quality, also impact the overall economic stability of local communities. Higher food prices resulting from supply chain disruptions further strain household budgets and financial well-being. Credit unions, as vital financial institutions within local communities, may face an increased demand for assistance and support from members dealing with these economic challenges.

Figure 3: Physical Risk Impacts



Source: Adapted from Heatwaves: Alice C Hill, Madeline Babin & Sabine Baumgartner, "A World Overheating", (18 October 2021), online: *Counc Foreign Relat* <https://www.cfr.org/article/climate-change-world-overheating-how-countries-adapt-extreme-temperature>; Changing Oceans: "Fisheries", online: *Glob Environ Facil* <https://www.thegef.org/what-we-do/topics/fisheries>; Canadian Institute for Climate Choices, *Under Water: The Costs of Climate Change for Canada's Infrastructure* (CICC, 2021).

B. TRANSITION RISKS

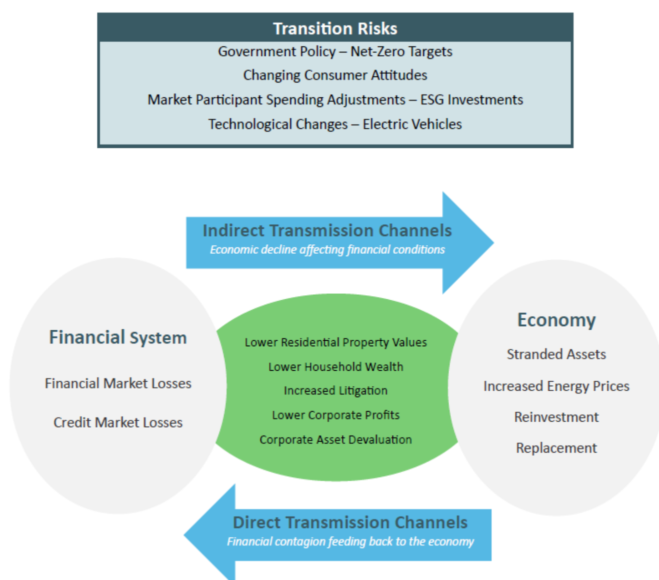
Transition risk is the risk that arises from adaptation to climate change. It is the risk that companies, individuals, governments, and economic sectors will face disruptions, pressures, and losses due to technological, reputational, and regulatory changes.

Credit unions face direct and indirect impacts from transition risks. Directly, they are influenced by changes in regulations and business conditions. Indirectly, they are affected by the transition risks faced by their members and communities. As industries and sectors work towards addressing climate challenges and adopting sustainable practices, there will be hurdles, especially concerning regulatory changes that involve measuring, managing, and disclosing climate risks, as well as setting carbon reduction targets.

Uncertainty amplifies transition risk, as the path to sustainability is complex and affects communities differently. Unpredictable regulatory responses to unpredictable weather events further compound transition risk. However, the government aims to improve climate science and ensure a 'just transition' for all communities.[57]

As financial intermediaries, credit unions have a duty to actively address climate-related risks in their engagement with members and the local community. This involves making prudent lending choices to mitigate credit and market risks, directing capital towards sustainable projects, and identifying any emerging risks associated with climate change.[58] The transition risks for all financial institutions, including credit unions, encompass various areas such as policy, financial, operational, reputation, technology, personnel, and liability risks.

Figure 4: Transition Risk Transmission Channels



Source: Adapted from Ceres Accelerator for Sustainable Capital Markets & Filene Research Institute. The Changing Climate for Credit Unions, Report No. 561 (2022).

[57] *Climate Change 2022: Mitigation of Climate Change* (Intergovernmental Panel on Climate Change, 2022) at 1806 [hereafter *Climate Change 2022: Mitigation of Climate Change*]. A "just transition" is '[a] set of principles, processes and practices that aim to ensure that no people, workers, places, sectors, countries or regions are left behind in the transition from a high-carbon to a low-carbon economy. It stresses the need for targeted and proactive measures from governments, agencies, and authorities to ensure that any negative social, environmental or economic impacts of economy-wide transitions are minimised, whilst benefits are maximised for those disproportionally affected.'

[58] Sarra & Campbell, *supra* note 16 at 32.

1. POLICY RISKS

> ***Net-zero*** is the stabilization of carbon emissions in the atmosphere, where the emitting of carbon is equivalent to the absorption of carbon, thus negating excess emissions in the atmosphere.

Included in transition risks are policy risks as the shift towards a sustainable economy requires significant policy development to address the need for climate mitigation and adaptation.

- Mitigation efforts aim to reduce the causes of greenhouse gas emissions and lower current emissions by enhancing the absorption of previously emitted gases.[59]
- Adaptation involves making adjustments to ecological, social, or economic systems in response to climate impacts. It includes processes to minimize potential harm and seize opportunities arising from climate change.[60]

Credit union directors have a responsibility to understand and oversee policy changes, especially as regulators incorporate climate considerations into their supervisory frameworks. While regulatory requirements vary by province, and some provinces have yet to establish specific regulations related to climate change, there are indications of progress in this area.

- The FSRA plans to issue guidance on climate-related risks for credit unions.[61]
- The British Columbia Financial Services Authority (BCFSA) aims to address "natural catastrophe and climate risk" over the next three years.[62]
- To achieve its net-zero commitments, the Canadian government has implemented and is likely to continue implementing new climate policies that may impact credit unions' lending and investment portfolios.[63]
- The OSFI has released Guideline B-15 on climate risk management for federally regulated financial institutions (FRFIs), which may serve as a reference point for provincially regulated credit unions as many provincial regulators follow OSFI's guidelines.[64]

Since 2019, all Canadian jurisdictions have implemented carbon pricing systems that meet federal minimum standards.[65] The purpose of carbon pricing is to hold businesses accountable for their carbon emissions and encourage them to reduce these emissions. Credit unions with significant carbon emissions will face higher operating costs, potentially affecting their revenue and increasing the risk of default on operating loans. Credit unions that invest heavily in carbon-intensive industries may also face challenges, as their investments could lose value and impact

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[59] Janis Sarra, *From Ideas to Action: Governance Paths to Net Zero* (Oxford: Oxford University Press, 2021) at 14–15 [hereafter Sarra, *From Ideas to Action*].

[60] I Burton et al, "Adaptation to Climate Change in the Context of Sustainable Development and Equity" in A Patwardhan & J -F Soussana, eds, *TAR Climate Change 2001: Impacts, Adaptation, and Vulnerability* (The Intergovernmental Panel on Climate Change, 2018) 879 at 879.

[61] Financial Services Regulatory Authority of Ontario, *Proposed Operational Risk and Resilience*, No CU0088APP (FSRA, 2023) at 16 [hereafter FSRA, *Proposed Operational Risk and Resilience*]; Financial Services Regulatory Authority of Ontario, Rule 2021-001, *Sound Business and Financial Practices*, [hereafter *Sound Business and Financial Practices*].

[62] British Columbia Financial Services Authority, *2023/24 Regulatory Roadmap* (BCFSA, 2023) at 10–14 [hereafter British Columbia Financial Services Authority].

[63] Environment and Climate Change Canada, "Canada confirms its support for the Global Methane Pledge and announces ambitious domestic actions to slash methane emissions", (11 October 2021), online: <https://www.canada.ca/en/environment-climate-change/news/2021/10/canada-confirms-its-support-for-the-global-methane-pledge-and-announces-ambitious-domestic-actions-to-slash-methane-emissions.html>.

[64] OSFI Guideline B-15, *supra* note 14.

[65] *Canada Greenhouse Gas Pollution Pricing Act*, SC 2018, c 12. See Environment and Climate Change Canada, "Carbon pollution pricing systems across Canada", (23 October 2018), online: <https://www.canada.ca/en/environment-climate-change/services/climate-change/pricing-pollution-how-it-will-work.html>.

their creditworthiness.[66] Credit unions should consider emissions associated with their lending and develop plans to reduce them. Additionally, new regulations require FRFIs to create transition plans and disclose targets and metrics for financed transactions, indicating that provincial regulations on managing climate risks may follow, posing a significant transition risk.[67]

2. FINANCIAL RISKS

Credit unions play a crucial role in financing efforts to achieve net-zero emissions and enhance resilience to climate impacts. As the understanding of climate science evolves and decarbonization financing poses challenges, directors need reliable and practical information to make informed decisions on risk management and credit union strategies.[68] During the transition to a net-zero economy, various asset classes and industries may face climate-related risks, and Canadian credit unions are likely to have exposure to some or all of these.

Table 1: Climate-related Risk Impacts on Financial Assets

Category of assets tied to	Climate-related risk impacts examples
Equity or debt of businesses in sectors affected by physical or transition risks	➢ Agriculture ➢ Transportation ➢ Automobiles ➢ Cement, steel, chemicals, and plastics ➢ Energy (coal, oil, and gas) ➢ Hospitality ➢ Mining and metals ➢ Power generation ➢ Service and infrastructure providers to oil and gas ➢ Tourism
Equity and debt of infrastructure companies	➢ Power and water utilities ➢ Communications ➢ Public and private transportation infrastructure
Real property securities and loans	➢ Commercial mortgage-backed securities (CMBS) ➢ Commercial real estate loans ➢ Commercial real estate mortgages ➢ Real estate investment trusts (REITs) ➢ Residential mortgage-backed securities ➢ Residential mortgages
Insurance coverage providers' equity, debt, and securities	➢ Insurance and reinsurance companies ➢ Insurance-linked securities (ILS)
Government revenue bonds	➢ Municipal bonds ➢ Sovereign bonds

Source: Adapted from Commodity Futures Trading Commission, 'Managing Climate Risk in the U.S Financial System' (2020).

[66] The Office of the Superintendent of Financial Institutions, *Navigating Uncertainty in Climate Change - Promoting Preparedness and Resilience to Climate-Related Risks* (OSFI, 2021) at 12 [hereafter OSFI, *Navigating Uncertainty*].
[67] *Ibid*.
[68] Sarra & Campbell, *supra* note 16 at 41.

Credit unions, like other financial institutions, work with insurers to manage risks associated with natural disasters and mitigate potential impacts on their balance sheets.[69] However, a recent stress test conducted by the Bank of France revealed that relying on the insurance industry to transfer risks may not always ensure the safety of credit unions. Insurers may choose to raise premiums or withdraw from high-risk markets, leaving credit unions exposed.[70] To effectively respond to such situations, credit unions should employ risk modelling to take prompt action, such as reducing risky loans, diversifying their portfolios, or addressing the decline in collateral value caused by severe climate events.

3. OPERATIONAL RISKS

Credit unions should work to identify and address operational risks associated with climate-related weather events to enhance their resilience. As extreme weather events become more frequent and severe, these risks include potential damage to physical assets and disruptions to critical operations. Developing strategies to mitigate the impact of climate-related disasters on critical operations is crucial for credit unions to strengthen their resilience.

The FSRA has recently issued guidance specifically emphasizing the importance of incorporating climate-related risks into a credit union's business strategies, corporate governance, and internal control frameworks to prevent future financial and reputational losses and to mitigate operation risk.[71] Similar guidance is anticipated in other jurisdictions. By proactively addressing these risks, credit unions can better navigate the operational challenges posed by climate change.

4. REPUTATIONAL RISKS

The transition to a more sustainable economy presents reputational risks for credit unions. These risks arise when members perceive the credit union unfavourably due to a lack of transition strategy, including capital reallocation and providing guidance on climate impacts, risk assessments, and adaptation requirements for mitigating extreme weather events. OSFI reports that financial institutions may be seen as contributing to climate change if they continue to invest in high carbon-emitting sectors.[72] Currently, 15% and 14% of Gen Zs and millennials respectively believe businesses are taking appropriate action on climate change.[73]

Credit union boards face a delicate balance when deciding on capital allocation. Not investing in projects that reduce greenhouse gas emissions and address climate risks can harm the credit union's reputation and increase credit risk. However, withdrawing funding from members in high carbon-emitting industries that are not transitioning to net-zero can have negative effects on the local economy and the credit union's reputation, depending on the region. Credit unions could

[69] Janis Sarra, *Life, Health, Property, Casualty: Canadian Insurance Company Directors and Effective Climate Governance.pdf* (Canada Climate Law Initiative, 2021).
[70] "France's new step for the supervision of climate-related financial risk", (26 May 2021), online: *Banq Fr* <https://www.banque-france.fr/en/intervention/frances-new-step-supervision-climate-related-financial-risk>.
[71] FSRA, *Proposed Operational Risk and Resilience*, *supra* note 61 at 9.
[72] OSFI, *Navigating Uncertainty*, *supra* note 66 at 10.
[73] Deloitte Global, *The Deloitte Global 2022 Gen Z and Millennial Survey* (Deloitte Global) at 24 [hereafter Deloitte Global].

leverage their deep understanding of local communities, businesses, and industries to find a reasonable approach to these conflicting challenges.[74]

Reputational risks can lead to a significant decline in a credit union's value, liquidity, or customer base, requiring costly remedial actions. A strong reputation is a valuable asset for credit unions, vital for optimizing member and community services. Therefore, managing reputation risks is an ongoing priority for credit unions.

5. TECHNOLOGICAL RISKS

Credit unions also need to prepare for the emergence of new economic activities and businesses in a net-zero carbon economy. They should develop risk models that enable them to provide credit and support to clean and sustainable technologies as they increase their involvement with new market participants.

The adoption of technologies like renewable energy, battery storage, carbon capture and storage, and waste reduction will have a significant impact on credit unions.[75] As technology advances, borrowing costs may be influenced, and financial assets may experience sudden repricing. Additionally, the rapid transition to a net-zero carbon economy can introduce market risks for credit unions. Credit unions need to stay informed about these advancements and potential market shifts to effectively manage risks and seize opportunities in this changing landscape.[76]

For instance, credit unions in Saskatchewan could be significantly impacted by technological changes in the agricultural sector, as they prioritize agricultural lending to support small- and medium-sized farmers. Agricultural loans make up 20% of their loan book, in contrast to credit unions in Ontario, British Columbia, Québec, and Alberta which allocate 5% or less of their total loans to the agricultural sector.[77] If farmers in Saskatchewan are not adequately supported in the technological transition, they may face financial challenges, which could have a ripple effect on credit union loan portfolios and severely impact the surrounding communities.

[74] Sarra & Campbell, *supra* note 16 at 33.
[75] Task Force on Climate-related Financial Disclosures, *Final Report: Recommendations of the Task Force on Climate-related Financial Disclosures* (TCFD, 2017) at 6 [hereafter TCFD Final Report].
[76] Bolton et al, *supra* note 34.
[77] DBRS Morningstar, *supra* note 32.

6. HUMAN CAPITAL RISKS

One of the significant transition risks facing the Canadian economy is the adaptation of the workforce to a circular economy and a sustainable future. According to research by the Royal Bank of Canada (RBC), approximately 3.1 million jobs (15% of the Canadian workforce) will be disrupted over the next decade as Canada transitions to a net-zero economy.[78] The impact will vary across major economic sectors, with about 80% experiencing some level of disruption, although the effects will not be evenly distributed throughout the country.[79]

In a ***circular economy*** nothing is waste. The circular economy retains and recovers as much value as possible from resources by reusing, repairing, refurbishing, remanufacturing, repurposing, or recycling products and materials.

TD Bank's analysis predicts that the demand for oil and gas will be reduced by 50% by 2050, affecting between 312,000 to 450,000 jobs in the industry.[80] Alberta, Saskatchewan, and Newfoundland and Labrador, which account for a large portion of Canada's crude oil and natural gas production, will be particularly affected.[81] Small communities in Alberta that heavily rely on these industries will face the greatest impact, as oil and gas extraction makes up a significant portion (25%) of the total labour force in Alberta, compared to just 1.5% for the whole of Canada.[82]

A key challenge in the transition to address climate change is ensuring a 'just transition' which involves shifting to new technologies and sustainable energy sources while ensuring that labour policies support workers by offering economic security and necessary skills for new job opportunities.[83]

7. LIABILITY RISKS

Credit unions face various legal and liability risks when transitioning to a sustainable economy. These risks involve strategic decision-making related to climate change mitigation, such as determining lending and investment portfolios that align with the best interests of the credit union and its members. If credit unions have committed to reducing their carbon footprint, there is a legal risk if they fail to meet these commitments. The Network for Greening the Financial System warns that as climate science improves, climate-related lawsuits could become more successful by establishing causation between emissions and resulting damages.[84] Such lawsuits can have a significant impact on financial entities and the overall financial sector, potentially leading to bankruptcies and chain effects on the financial system.[85] The primary areas of litigation applicable to credit unions are:

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[78] Colin Guldimann & Naomi Powell, *Green Collar Jobs: The skills revolution Canada needs to reach Net Zero*, RBC Thought Leadership (Royal Bank of Canada, 2022).

[79] *Ibid*.

[80] Beata Caranci & Francis Fong, *Don't Let History Repeat: Canada's Energy Sector Transition and the Potential Impact on Workers* (TD Bak, 2021).

[81] *Ibid*.

[82] *Ibid* at 7.

[83] *Ibid*.

[84] Network for Greening the Financial System, *Climate-related litigation: Raising awareness about a growing source of risk* (NGFS, 2021) at 9 [hereafter Network for Greening the Financial System].

[85] *Ibid*.

Damages: Credit unions may face lawsuits due to their indirect involvement in climate-related damage caused by financed initiatives contributing to climate change.[86] Additionally, credit unions with financial exposure to defendant companies in litigation could face credit risk if those companies experience financial difficulties due to litigation costs, compliance expenses, and potential damages or fines from an unfavourable verdict. Therefore, credit unions should assess the potential impact of climate litigation risk on the companies they are associated with.[87]

For instance, on 23 February 2023, legal proceedings were brought by NGOs against BNP Paribas for funding fossil fuel projects in France and not providing a comprehensive plan to identify, mitigate, and prevent climate change-related risks.[88] This lawsuit marks the first climate litigation against a bank.

Breach of Fiduciary Duties: Directors could also face personal liability lawsuits for the credit union's climate strategy. Earlier this year, ClientEarth made history by filing a derivative action, in the United Kingdom against Shell plc's directors. The lawsuit claims that the directors breached their duty to act with reasonable care, diligence, and skill in adopting Shell's climate strategy which did not align with the Paris Climate Agreement.[89] This case demonstrates a growing trend towards holding directors accountable for their actions and decisions regarding climate-related matters.

Canadian directors may also be personally liable under the oppression remedy,[90] which imposes a general standard of fair conduct.[91] To establish a director's personal liability in oppressive conduct it must be:

> it is fair to hold the director personally liable, having regard to all the circumstances;
>
> should go no further than necessary to rectify the oppression;
>
> may serve only to vindicate the reasonable expectations of security holders, creditors, directors or officers in their capacity as corporate stakeholders; and
>
> director liability cannot be a surrogate for other forms of statutory or common law relief, particularly where such other relief may be more fitting in the circumstances.[92]

Greenwashing: Financial institutions are likely to face a rise in climate-related lawsuits, primarily concerning insufficient disclosure and management of climate risks, including claims related to annual reports and advertising practices. Additionally, as climate-related regulations evolve, there is a possibility of lawsuits against financial institutions for contract breaches or misleading

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[86] *Ibid* at 5.

[87] *Ibid* at 7.

[88] Jennifer Fairfax, Ankita Gupta, & Joaquin Arias, "First climate lawsuit against a commercial bank: NGOs take legal action against BNP Paribas for funding fossil-fuel development", *Osler Hoskin Harcourt LLP* (27 April 2023), online: <http://www.osler.com/en/resources/regulations/2023/first-climate-lawsuit-against-a-commercial-bank-ngos-take-legal-action-against-bnp-paribas-for-fund?utm_source=update&utm_campaign=20240427_-_first_climate_lawsuit_against_a_commercial_bank_ngos_take_legal&utm_medium=email>. The case is pending as of May 2023

[89] Andrew MacDougall, Jennifer Fairfax, & Ankita Gupta, "Climate litigation comes for directors", *Osler Hoskin Harcourt LLP* (8 March 2023), online: <http://www.osler.com/en/resources/governance/2023/climate-litigation-comes-for-directors?utm_source=update&utm_campaign=climate_litigation_comes_for_directors&utm_medium=email>. The Court dismissed the case on May 12, 2023. ClientEarth is considering the next steps. https://www.cnbc.com/2023/02/09/oil-shell-board-of-directors-sued-by-investors-over-climate-strategy.html.

[90] *SCC Wilson v Alharayeri*, 2017 SCC 39, [2017] 1 SCR 1037 [hereafter *SCC Wilson v. Alharayeri*].

[91] *Canada Business Corporations Act*, 1985, RSC, s 241; *Business Corporations Act*, R.S.O. 1990, c. B.16, s. 248.

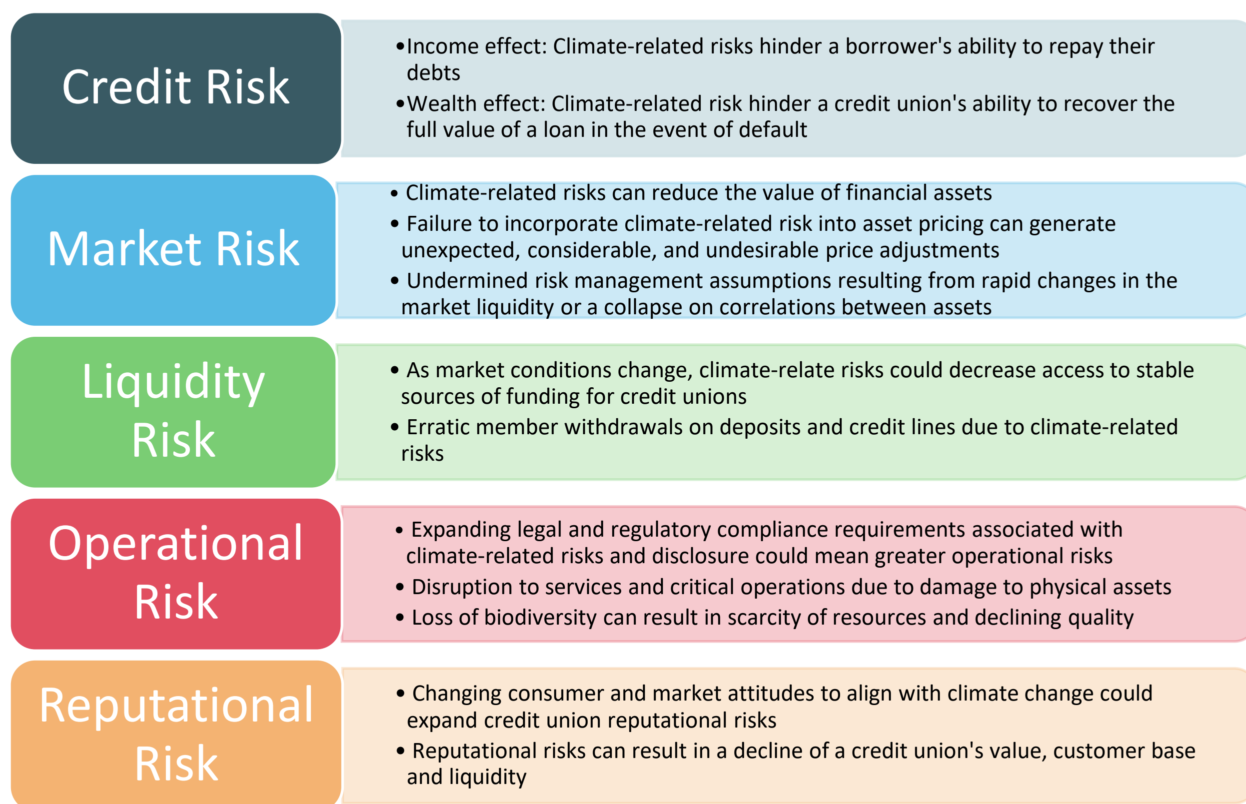
[92] *SCC Wilson v. Alharayeri*, *supra* note 90 at paras 52–55.

disclosure of green financial products.[93] Millennials and Gen Z, who have significant purchasing power, are highly aware of climate change issues and are therefore sceptical of green marketing claims and often seek substantial evidence to verify such claims.[94]

C. SYSTEMIC RISK

Credit unions are concerned about systemic risk, which arises from various financial risks and is amplified within the financial system during periods of distress. When it comes to climate change, credit unions face specific financial risks that have the potential to affect the level of systemic risk.

Figure 5: Climate Risks in Terms of Financial Institution Risk Categories:



Source: Adapted form Basel Committee on Banking Supervision, "Climate-related risk drivers and their transmission channels" (2021), online: <https://www.bis.org/bcbs/publ/d517.htm>.

According to the IPCC, financial institutions, including credit unions, may be underestimating the financial risks associated with climate change, leading to the accumulation of systemic risk within the financial sector. The expansion of fossil fuel infrastructure and the lack of transparency in

[93] Network for Greening the Financial System, *supra* note 84 at 7.
[94] Janis Sarra, *Retail's Route to Net-zero Emissions: The Canadian Retail Sector and Effective Climate Governance* (Canada Climate Law Initiative, 2022) at 23 referencing Lucia Rahilly, Meet Generation Z: Shaping the future of shopping, McKinsey Podcast (4 August 2020).

asset valuation contribute to this risk.[95] The underestimation of financial risk also hampers the necessary reallocation of capital for the transition to a low-carbon economy,[96] which threatens the stability of financial markets. Additionally, economies heavily reliant on carbon may experience a reduction in fiscal revenue, potentially impacting macroeconomic stability and the feasibility of a "just transition." To address these challenges, proactive measures are required to assess the possibility of stranded assets and mitigate the associated risks.[97]

Addressing systemic risk requires credit unions to incorporate climate risk considerations into their risk management frameworks, conduct thorough assessments of their loan portfolios, diversify their investments, enhance resilience, and stay informed about evolving regulatory frameworks related to climate change.

[95] *Climate Change 2022: Mitigation of Climate Change*, *supra* note 57 at 1549, 1584.
[96] *Ibid* at 1549, 1581.
[97] *Ibid* at 90.

IV. WHAT CLIMATE-RELATED OPPORTUNITIES SHOULD CANADIAN CREDIT UNIONS BE FOCUSING ON?

The transition to a sustainable economy brings both risks and opportunities for financial institutions, including credit unions. Directors of credit unions have a responsibility to act in the best interest of the credit union,[98] making it important for them to assess and address climate-related risks. Additionally, studies indicate that addressing climate change can generate business value. Larry Fink, CEO of Blackrock, the world's largest investment firm, has emphasized the significance of this by stating:

> There is no company whose business model won't be profoundly affected by the transition to a net zero economy. [...] As the transition accelerates, companies with a well-articulated long-term strategy, and a clear plan to address the transition to net zero, will distinguish themselves with their stakeholders […] by inspiring confidence that they can navigate this global transformation.[99]

Credit unions have several sustainable opportunities to address climate change. This guide outlines five key areas to focus on: 1) standing out in competitive markets, 2) development of new products and services, 3) attraction and retention of talent, 4) improving operational efficiency, and 5) upholding community-focused values.

A. STANDING OUT IN COMPETITIVE MARKETS

The transition to a more sustainable economy presents investment opportunities for credit unions. By strategically positioning themselves in the evolving marketplace, credit unions can differentiate themselves from competitors. They have a unique advantage due to their history as community financial institutions with a strong mission-driven focus. In Canada, credit unions have a longstanding involvement in community investment, with significant contributions to local communities through donations and sponsorships ($53.4 million in 2019).[100] They also play a crucial role in lending to small and medium-sized businesses and investing in rural agriculture. These community initiatives are relevant to climate change as the promotion of social equality is a foundation for a more sustainable society.[101]

Clean Energy Credit Union in the United States has established a unique market position focused on environmental sustainability and climate change. Despite being relatively new, the organization has experienced remarkable growth. By the end of 2021, it had nearly US$30 million in assets. Membership increased by 80% between 2020 and 2021, reaching 5,100 members. Total assets grew by 58%, total loans increased by almost 65%, and total revenue rose by over 18%. This exceptional growth showcases how a credit union can successfully differentiate itself by focusing on sustainability. While not every credit union can replicate this exact model, it

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[98] *Credit Unions and Caisses Populaires Act*, s 109 [hereafter *Credit Unions and Caisses Populaires Act* [*Credit Unions and Caisses Populaires Act (Ontario)*]].
[99] Larry Fink, *Larry Fink's 2021 Letter to CEOs* (2021).
[100] Benjamin J Richardson, "Financing Environmental Change: A New Role for Canadian Environmental Law" (2004) 49 McGill Law J 145 at 8.
[101] *Ibid*.

demonstrates the potential for credit unions to tap into societal and membership requirements and leverage their cooperative structure to drive positive change.[102]

B. THE DEVELOPMENT OF NEW PRODUCTS AND SERVICES

To seize the business opportunities arising from climate change and the shift towards a sustainable economy, credit unions can leverage their traditional financing models for consumers and businesses.

- In 2021, electric vehicle sales in Canada witnessed a significant increase of 42.5% compared to 2020, with a total of 66,815 vehicles sold.[103]
- As of January 2022, the Government of Canada received over 182,400 applications for the Greener Homes Grant,[104]
- 14% of Canadians consider energy-efficient furnace installation as the top method to make their homes more sustainable.[105]

Green financing is the shift of financial flows from the public, private and not-for-profit sectors towards climate-focused activities.

Credit unions can capitalize on the consumer's transition to greener cars and homes by providing "green financing" options to members, which will fuel growth and create new lending markets, whilst supporting their members in the transition to a more sustainable way of life and contributing to the growth of green industries. Green products for consumers could include:

- electric and clean energy vehicle loans;
- home energy improvement loans for solar electric systems and energy efficiency upgrades to residential houses;
- off-grid mortgages for members whose homes are not powered by traditional means;
- green savings accounts that invest in climate-friendly investments or directly in renewable energy, adaptation and mitigation projects, such as community solar or disaster preparedness initiatives; and
- green credit cards that offer rewards to members for purchasing eco-friendly products and services from participating businesses.

Additionally, credit unions can broaden their commercial services by providing loans and investments to businesses and non-profit organizations that prioritize sustainability, including supporting initiatives like adopting green products or services, enhancing energy efficiency, constructing environmentally friendly buildings, or implementing sustainable energy and climate adaptation projects on a larger scale. By expanding their offerings in this way, credit unions can contribute to the growth of sustainable practices within other sectors.

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[102] Darla Dernovsek, "Green lending generates growth", (13 July 2021), online: *CUNA* <https://news.cuna.org/articles/119657-green-lending-generates-growth>.

[103] Mathilde Carlier, "Canadian Electric Vehicle Sales 2021", (9 March 2022), online: *Statista* <https://www.statista.com/statistics/665870/sales-of-plug-in-light-vehicles-in-canada/>.

[104] Natural Resources Canada, "Canada Greener Homes Grant Winter 2022 Update", (January 2022), online: *Government of Canada* <https://www.canada.ca/en/natural-resources-canada/news/2022/01/canada-greener-homes-grant-winter-2022-update.html>.

[105] Olivia Bush, "Home Improvement Statistics in Canada for 2023", (4 February 2023), online: *Made in CA* <https://madeinca.ca/home-improvement-canada-statistics/>.

C. ATTRACTING AND RETAINING TALENT

Differentiating as a credit union helps attract and retain both talent and members. Research indicates that social and environmental factors play a significant role in attracting younger workers. For instance, a global study by Deloitte found that Millennials and Gen Z consider a company's impact on society and the environment when seeking employment. 36% of Millennials and 37% of Gen Zs would reject a job offer if it conflicted with their values.[106] The percentage increases to 46% for Millennials and Gen Zs in senior positions.[107] Additionally, 43% of Millennials and 48% of Gen Zs have exerted pressure on employers to take action, and they demonstrate greater loyalty to employers who listen and engage with their feedback and suggestions.[108]

D. IMPROVING OPERATIONAL EFFICIENCY

Credit unions are actively working towards greening their internal operations by implementing sustainable practices. They make long-term investments in green energy and adopt measures to reduce waste and resource usage, such as transitioning from paper to digital operations. A notable example is Vancity, recognized as a leader in environmental sustainability among credit unions. Vancity has prioritized energy efficiency by implementing preventative maintenance, using energy-efficient lighting, and upgrading HVAC systems and building envelopes. These efforts have resulted in substantial energy cost savings, totalling over $4.5 million,[109] showcasing that sustainable transitions not only benefit the environment but also prove advantageous for credit unions from a financial perspective.

E. UPHOLDING COMMUNITY-FOCUSED VALUES

Credit unions have a unique opportunity to stand out and thrive in the financial services landscape by addressing the new challenges brought about by climate change. By embracing climate leadership, credit unions can leverage their strengths and meet the evolving economic, social, and cultural needs of their members. Research has shown that pursuing sustainability goals and maintaining strong financial performance are not conflicting objectives. Financial institutions that effectively address important environmental, social, and governance (ESG) issues, including greenhouse gas emissions and climate change, tend to deliver higher risk-adjusted returns compared to those that neglect these issues.[110] By prioritizing sustainability and demonstrating consistent and strong leadership, credit unions can position themselves as trusted financial partners that not only meet member needs but also deliver positive financial outcomes.

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[106] Deloitte Global, *supra* note 73 at 13.
[107] *Ibid*.
[108] *Ibid* at 24.
[109] "Vancity is carbon neutral", online: *Vancity*
<https://www.vancity.com/AboutVancity/VisionAndValues/ValuesBasedBanking/EnvironmentalSustainability/VancityIsCarbonNeutral/>.
[110] KKS Advisors et al, *ESG Value Creation: Do Sustainable Banks Outperform? Driving value creation through ESG practices* (KKS Advisors, 2019).

V. STEPS FOR EFFECTIVE GOVERNANCE OF CLIMATE-RELATED RISKS AND OPPORTUNITIES

This section aims to support credit union directors in navigating climate governance, regardless of their current stage in the process. It outlines the key components of effective climate governance under OSFI's Guideline B-15, the World Economic Forum (WEF) principles, and the four pillars of the Financial Stability Board's Task Force on Climate-related Financial Disclosures (TCFD). To assist directors, a climate governance checklist is provided, highlighting essential questions to consider throughout their credit union's climate governance journey. The section also acknowledges and celebrates the climate governance accomplishments of Canadian credit unions.

A. ELEMENTS OF EFFECTIVE CLIMATE GOVERNANCE

Credit union directors play a crucial role in implementing effective governance practices to address climate-related risks. To adapt to the evolving climate governance landscape, corporate mindset, business strategies, and governance approaches need to be transformed. Climate-related risks are now recognized as a significant part of the risk framework for credit unions, demanding boards address them just like any other business risk.[111]

Various frameworks have been developed to guide businesses in their approach to climate governance.

OSFI's Guideline B-15 is particularly relevant for all credit unions, even though it currently pertains to federally regulated credit unions and other FRFIs, as it is expected that provincial regulators will adopt similar guidelines in the future. The TCFD framework and WEF principles are also discussed in this section, as they provide a valuable foundation for credit unions to consider climate-related risks and establish effective climate governance practices, despite being primarily targeted towards public-traded companies that disclose their climate-related risks and opportunities.

Credit unions, as cooperatives, are focused on the well-being of their members rather than shareholders and therefore some elements of OSFI's Guideline B-15, the TCFD framework and WEF principles may not be directly applicable to a credit union's governance structure. The discussion on these frameworks in the context of credit unions has been adapted to reflect the cooperative structure and values where possible and will address key areas such as governance, risk oversight and management, strategy, targets and metrics, and disclosure and communication, incorporating elements from all frameworks.

It's important to note that managing climate-related risks does not have a one-size-fits-all approach. Each credit union's unique characteristics, including size, scope, risk profile, nature, complexity of operations, jurisdiction, and membership profile, will determine the specific risks and vulnerabilities it faces. Not all suggestions in this section will apply to every credit union, and each institution should independently consider how this Guide relates to its own operations.

[111] *Creating Effective Climate Governance on Corporate Boards* (World Economic Forum, 2019) at 6 [hereafter WEF, *Effective Climate Governance*].

OSFI's Guideline B-15 was created to outline expectations for FRFIs in managing climate-related risks and to enhance their resilience in dealing with such risks.[112] The guideline focuses on three key outcomes for FRFIs:

Figure 6: OSFI's Guideline B-15 Outcomes:

Source: Adapted from Office of the Superintendent of Financial Institutions Canada. Guideline B-15 Climate Risk Management (OSFI, 2023).

The guideline sets out the expectations of climate-related risk management according to five principles, which are:

- Principle 1: The FRFI should have the appropriate governance and accountability structure in place to manage climate-related risks.
- Principle 2: The FRFI should incorporate the implications of physical risks from climate.
- change and the risks associated with the transition to a low-greenhouse gas (GHG) economy to the FRFI in its business model and strategy.
- Principle 3: The FRFI should manage and mitigate climate-related risks per the FRFI's Risk Appetite Framework.
- Principle 4: The FRFI should use climate scenario analysis to assess the impact of climate-related risks on its risk profile, business strategy, and business model.
- Principle 5: The FRFI should maintain sufficient capital and liquidity buffers for its climate-related risks.[113]

The Taskforce on Climate-Related Financial Disclosures encourages companies to include climate-related financial disclosures in their annual filings. The framework is widely recognized and many countries, including Canada, have mandated its adoption.[114] The TCFD framework is based on four pillars, which are:

- Governance
- Strategy
- Risk Management

[112] OSFI Guideline B-15, *supra* note 14 at 2.
[113] *Ibid* at 4–7.
[114] "Letter from the Deputy Prime Minister to the Chair of the Board of Trustees of the IFRS Foundation", online: *Government of Canada* <https://www.canada.ca/en/department-finance/programs/financial-sector-policy/letter-from-deputy-prime-minister-chair-board-trustees-ifrs-foundation.html>; Environment and Climate Change Canada & Expert Panel on Sustainable Finance, *Final report of the Expert Panel on Sustainable Finance: mobilizing finance for sustainable growth.* (Government of Canada, 2019) at 14–18; Government of Canada & Department of Finance, *Budget 2021: A Recovery Plan for Jobs, Growth, and Resilience* (2021) at 62; Government of Canada & Department of Finance, *Budget 2022: A Plan to Grow Our Economy and Make Life More Affordable* (2022) at 63.

- Metrics and Targets[115]

The World Economic Forum has developed eight guiding principles to assist boards in implementing effective climate-related governance.[116] These principles provide direction for boards to fulfil their duties by ensuring proper consideration and management of climate-related risks, and include:

- Principle 1: Climate Accountability on Boards
- Principle 2: Command of the Subject
- Principle 3: Board Structure
- Principle 4: Material Risk and Opportunity Assessment
- Principle 5: Strategic Integration
- Principle 6: Incentivization
- Principle 7: Reporting and Disclosure
- Principle 8: Exchange

1. GOVERNANCE

Effective climate-related risk management starts with a strong governance structure at the board level. Credit unions should establish a framework that enables them to make informed decisions about climate risks, strategies, targets, and metrics.[117] OSFI's Guideline B-15 Principle, the TCFD's Pillar 1, and WEF's Principle 1 focus on governance, which involves the board's identification, oversight and accountability of risks and opportunities related to climate change.[118]

Boards should ensure that the credit union has an appropriate governance and accountability structure in place and that management reports on climate-related risks to enable effective oversight and instil a sustainability and climate-conscious mindset throughout the credit union.[119]

- Boards should be capable of articulating how they oversee climate-related risks and opportunities within the credit union.[120]
- Boards should also assess whether they possess the required information and tools to tackle present-day challenges.[121]
- Directors should evaluate their capacity to scrutinize the realities of climate-related risks affecting the credit union and honestly assess their ability to make effective decisions regarding the management and disclosure of such risks.[122]

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[115] *Implementing the Recommendations of the Task Force on Climate-related Financial Disclosures* (Task Force on Climate-related Financial Disclosures, 2021) [hereafter TCFD Guidelines].
[116] WEF, *Effective Climate Governance*, *supra* note 111.
[117] *Ibid* at 9.
[118] *Ibid* at 11; TCFD Final Report, *supra* note 75 at 14; OSFI Guideline B-15, *supra* note 14 at 4.
[119] Carol Hansell, *Putting Climate Change Risk on the Boardroom Table*, Legal Opinion (Hansell LLP, 2020) at 22 [hereafter Hansell].
[120] TCFD Final Report, *supra* note 75 at 14.
[121] Hansell, *supra* note 119 at 13–14.
[122] Liane Langstaff, Jennifer L King & Larissa Parker, *Changing Climate, Changing Duties: Shifting Board Liability and Disclosure Issues Around Climate Change* (Growling WLR, 2020) at 5 [hereafter Langstaff, King, & Parker].

Board composition plays a crucial role, as highlighted by WEF's Principle 2. It's important to have a diverse mix of executive and non-executive directors who bring different perspectives on climate-related issues.[123] Including experts on the board can provide valuable insights into the risks and opportunities faced by the credit union.[124] Boards should assess their current climate change engagement programs, seek member input, allocate a budget for addressing climate-related risks and education, and continuously enhance their knowledge through seminars, scientific studies, and discussions with peers.[125] If needed, external consultants can be engaged to ensure sufficient expertise.[126]

OSFI's Guideline B-15 Principle 2 and the WEF's Principle 3 emphasize the importance of integration of climate change into decision-making processes.[127] This integration can be achieved by giving adequate attention to climate change and its financial, operational, and other implications for the credit union.[128] Establishing committees, such as risk, climate, and audit committees, dedicated to managing climate-related risks within their respective mandates can enhance board structure and effectiveness in climate governance.

Governance changes related to climate matters can bring significant advantages for credit unions. While adjusting governance to address climate-related risks may involve additional compliance efforts, incorporating climate governance into the credit union's practices can yield multiple benefits that go beyond regulatory compliance:

1. Greater membership engagement: Climate-related governance can foster stronger connections with members who are increasingly concerned about sustainability.
2. Cost savings: Implementing sustainable practices and energy-efficient measures can lead to financial savings for the credit union.
3. Access to new lending opportunities: Having better information on climate-related risks enables credit unions to make safer lending decisions and explore new lending avenues.
4. Access to new revenue streams: Developing innovative products and services that address climate challenges can open up new sources of revenue for the credit union.
5. Enhancements to existing processes: Integrating climate considerations into existing operations can lead to improved efficiency and effectiveness.
6. Closer ties to communities: Taking a proactive stance on climate issues can strengthen the credit union's relationship with the communities it serves.
7. Greater resilience: By addressing climate-related risks, the credit union and its members become more resilient to the challenges posed by climate change.[129]

2. RISK OVERSIGHT AND MANAGEMENT

The board of directors holds a fiduciary duty to effectively manage climate-related risks faced by the credit union and simply establishing dedicated climate-related committees does not absolve

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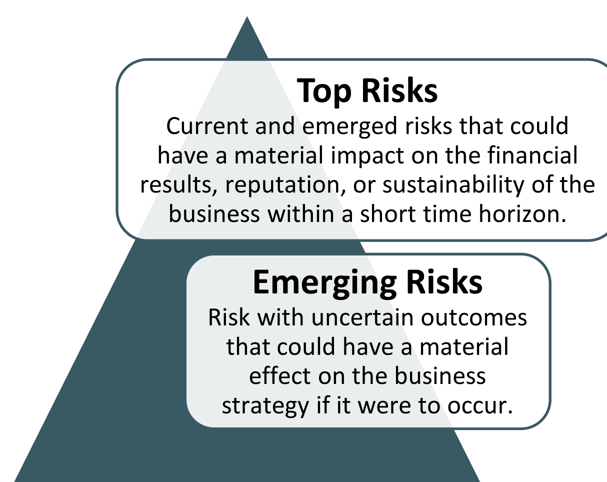
[123] WEF, *Effective Climate Governance*, *supra* note 111 at 12.
[124] Hansell, *supra* note 119 at 22–23; WEF, *Effective Climate Governance*, *supra* note 111 at 12.
[125] Hansell, *supra* note 119 at 22–23; WEF, *Effective Climate Governance*, *supra* note 111 at 12.
[126] Hansell, *supra* note 119 at 22.
[127] OSFI Guideline B-15, *supra* note 14 at 4; WEF, *Effective Climate Governance*, *supra* note 111 at 13.
[128] WEF, *Effective Climate Governance*, *supra* note 111 at 13.
[129] Canadian Securities Administrators, "Staff Notice 51-358: Reporting of Climate Change-related Risks" (2019) 17 at 11.

the board of its responsibilities.[130] It is also essential to establish efficient decision-making processes that prioritize, mitigate, transfer, accept, and control climate-related risks. OSFI's Guideline B-15 and the TCFD emphasise that these decision-making processes should be integrated into the credit union's overall risk management strategy, business plans, and aligned with financial institution risk categories such as credit, market, liquidity, and operational risks.[131]

Disclosure of risk management processes is becoming increasingly important, even though it is not currently mandated for provincially regulated credit unions.[132] OSFI's Guideline B-15 primarily focuses on disclosure, indicating a potential shift in future provincial regulations.[133] All credit unions have an opportunity to stay ahead by proactively disclosing climate-related risks before it becomes a requirement. The TCFD recommends using the Enhanced Disclosure Task Force's framework to identify both "top and emerging risks" faced by financial institutions.

Figure 7: TCFD's Top and Emerging Risks



Source: Adapted from Implementing the Recommendations of the Task Force on Climate-related Financial Disclosures (Task Force on Climate-related Financial Disclosures, 2021).

According to OSFI, credit unions can enhance their climate resilience by following certain practices. These practices include establishing a climate-related risk appetite aligned with their objectives, understanding their exposure to climate-related risks, implementing a risk management approach suitable for their size and complexity, and continuously adjusting their response based on new information.[134] The Guideline B-15 also provides clear guidance on best practices for risk management that can be beneficial for credit unions.[135] These practices include:

- integrating, pricing, and managing climate risk-sensitive assets and liabilities in line with the Risk Appetite Framework;
- incorporating climate-related risks into the Internal Control Framework, relevant policies, and practices, while clearly defining roles and responsibilities;

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[130] Sarra, *From Ideas to Action*, *supra* note 59.
[131] OSFI Guideline B-15, *supra* note 14 at 4; TCFD Guidelines, *supra* note 115 at 28.
[132] TCFD Guidelines, *supra* note 115 at 27.
[133] OSFI Guideline B-15, *supra* note 14.
[134] OSFI, *Navigating Uncertainty*, *supra* note 66 at 177.
[135] OSFI Guideline B-15, *supra* note 14 at 5.

- identifying and assessing the potential impact of climate-related risks on various exposures (e.g., credit, market, operational, insurance, liquidity);
- collecting and using reliable, timely, and accurate climate risk data for physical and transition risks that are material to the business;
- utilizing climate scenario analysis tools and models to evaluate climate-related risks, with a clear understanding of the underlying data and methodology;
- monitoring and reporting on internal metrics, limits, and indicators to assess the effectiveness of climate risk management; and
- developing capabilities to consolidate climate risk data, identify exposures and concentrations, and generate timely and objective reporting for strategic planning and risk management.[136]

To aid financial institutions, the Bank of Canada and OSFI have outlined three lines of defence for risk management. These lines of defence provide a framework to ensure effective risk management practices are in place.[137]

Figure 8: The Three Lines of Defence for Risk Management

Source: Adapted from Bank of Canada & Office of the Superintendent of Financial Institutions Canada, "Using Scenario Analysis to Assess Climate Transition Risk: Final Report of the BoC-OSFI Climate Scenario Analysis Pilot" (2022).

WEF's Principle 4 emphasizes the importance of regularly assessing material climate-related risks. The board should be well-informed about the risks specific to the financial sector and make informed assessments and respond accordingly.[138] As part of this response, OSFI's Guideline B-15 Principle 5 highlights the importance of maintaining adequate capital and liquidity buffers to address climate-related risks.[139] It is crucial to ensure that the board's response is proportionate to the risks identified. Directors should conduct scenario analysis to understand various potential outcomes based on different climate factors and timeframes.[140]

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[136] *Ibid*.

[137] Bank of Canada & Office of the Superintendent of Financial Institutions Canada, *Using Scenario Analysis to Assess Climate Transition Risk: Final Report of the BoC-OSFI Climate Scenario Analysis Pilot* (Bank of Canada and OSFI, 2022) at 46–47.

[138] WEF, *Effective Climate Governance*, *supra* note 111 at 13.

[139] OSFI Guideline B-15, *supra* note 14 at 7.

[140] WEF, *Effective Climate Governance*, *supra* note 111 at 14; Task Force on Climate-related Financial Disclosures, *Technical Supplement: The Use of Scenario Analysis in Disclosure of Climate-Related Risks and Opportunities* (TCFD, 2016) [hereafter TCFD *Technical Supplement*].

i. SCENARIO ANALYSIS

Scenario analysis is crucial for credit unions to incorporate into their strategic planning procedures, considering the challenges of anticipating climate change and the uncertainty surrounding its timing and impact.[141] The TCFD recognizes the challenges financial institutions face in quantifying their exposure to climate-related risks due to portfolio aggregation and data availability limitations, particularly for small and medium-sized credit unions that already face regulatory burdens. Despite these challenges, credit unions should strive, wherever possible, to provide both qualitative and quantitative information to the extent possible.

Credit unions need to familiarize themselves with the scenario analysis process and be prepared to make informed decisions based on available information.[142] The TCFD emphasizes that climate transition scenarios should not be seen as predictions, but rather as explorations of different possible pathways that align with specific climate objectives.[143]

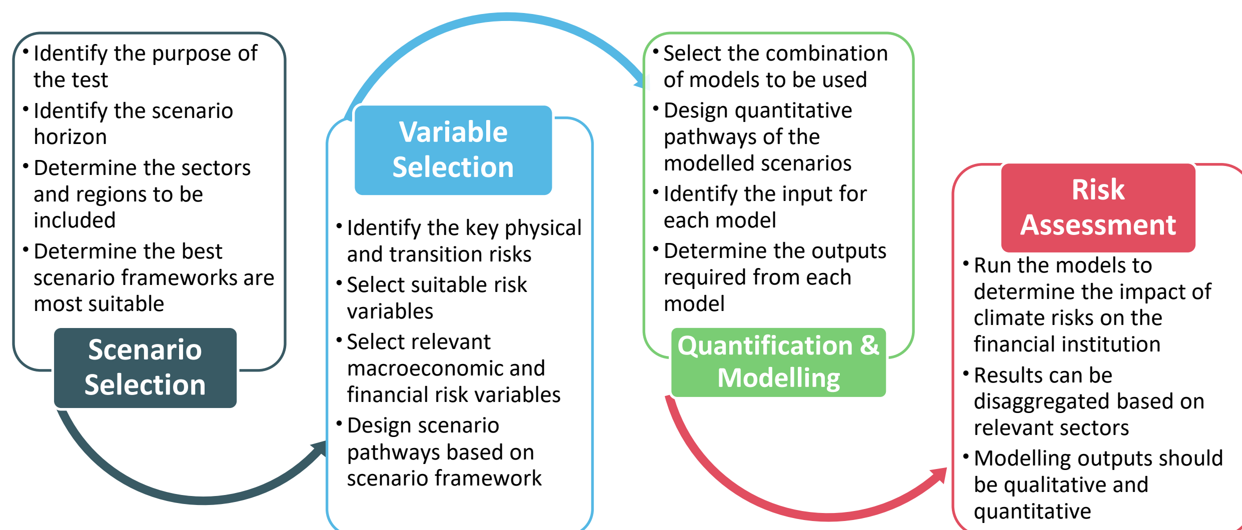
OSFI's Guideline B-15 Principle 4 highlights the importance of including climate scenario analysis in financial institution stress testing,[144] and emphasizes that:

- credit unions should rely on data and information used for investment decision-making and risk management during the analysis; and
- the impact of changes in methodologies and assumptions on risk metrics or exposures should be demonstrated qualitatively and quantitatively, if applicable.[145]

The TCFD and UN Environment Programme Finance Initiative's (UNEP FI) *Comprehensive Good Practice Guide to Climate Stress Testing* provides a comprehensive resource for credit unions to understand and implement climate stress testing effectively.[146] Climate stress testing involves scenario selection, variable selection, risk quantification modelling, and generating risk assessment outputs.[147]

[141] TCFD Guidelines, *supra* note 115 at 12.
[142] *Ibid* at 28.
[143] TCFD *Technical Supplement*, *supra* note 140 at 2, 31.
[144] OSFI Guideline B-15, *supra* note 14 at 6.
[145] *Ibid* at 11.
[146] UN Environment Programme Finance Initiative, *UNEP Finance Initiative's Comprehensive Good Practice Guide to Climate Stress Testing* (UNEP FI & TCFD, 2021).
[147] *Ibid* at 103.

Figure 9: Key Processes for Scenario Analysis in a Climate Stress Test



Source: Adapted from UN Environment Programme Finance Initiative. UNEP Finance Initiative's Comprehensive Good Practice Guide to Climate Stress Testing (UNEP FI & TCFD, 2021) at 103.

To ensure accurate outcomes across different regions, industries, and asset types, climate scenarios should incorporate physical and transition risk variables, along with macroeconomic and financial variables, to assess the impact of climate risks in specific scenarios. Key climate risk variables include physical hazards, carbon price, energy price, energy consumption, and GHG emissions. The TCFD and UNEP FI Guide highlights important considerations for stress testing, including:

- establishing a dedicated climate risk team with executive sponsorship and authority to oversee and coordinate the climate stress test;
- allocating adequate resources, both financial and human, to integrate climate stress testing into the organizational structure and processes, with strong governance and oversight; and
- developing a wide range of expertise in-house to conduct climate stress tests effectively, including providing climate-related training and knowledge development programs for teams across the organization.[148]

The Guide also offers recommendations for gathering counterparty data, including strategies for communicating data requirements to clients and revising client engagement procedures to incorporate data needs for climate stress testing.[149]

3. STRATEGY

A board's first step in developing an effective strategy is to ensure directors have a thorough understanding of the risks and opportunities faced by the credit union.[150] OSFI's Guideline B-15

[148] *Ibid* at 11.
[149] *Ibid* at 15.
[150] Sarra & Campbell, *supra* note 16 at 96.

Principle 2 highlights the importance of integrating climate-related risks into the credit union's strategy and the WEF's Principle 5 emphasizes that directors should be fully informed and capable of assessing climate-related risks in order to discuss and implement credit union strategies.[151] Long-term decisions, work plans, and strategic policies should be informed by climate-related risks to ensure the credit union's future resilience.[152] A flexible strategy is necessary to adapt to climate changes that may affect the credit union's operations, and scenario analysis should accompany strategic decisions to ensure their robustness against known future climate scenarios.[153]

Directors play a crucial role in the development of a forward-looking strategy by guiding credit unions towards sustainability. Credit unions have the opportunity to be at the forefront of the transition to a sustainable economy and direct capital towards sustainable initiatives within their communities[154] When developing a forward-looking strategy, credit unions should:

1. evaluate the long-term outlook for assets and infrastructure, considering their lifespan and potential climate impacts;
2. identify specific climate events that may occur within each timeframe and assess their financial implications for the credit union, providing transparency on the methods used to analyze these risks;
3. understand the physical and transition risks associated with the credit union's lending practices, its members, and its community;
4. assess existing strategies and identify necessary adjustments to mitigate the impact of climate change on the credit union's members and community, as well as on revenue, expenses, assets, and liabilities, describing these impacts and strategic changes in alignment with the relevant time horizons; and
5. communicate strategic information to members and key stakeholders, accompanied by a comprehensive analysis of how the new strategies enhance resilience to climate-related risks and capitalize on opportunities.[155]

In managing climate-related risks, credit unions should also address potential workforce challenges arising from physical and transition risks. Credit unions need to be aware of labour-related issues that may arise and have a strategy in place to reskill, upskill, and retain their current and potential employees.[156] Furthermore, employees should be actively involved in the credit union's strategy for climate resilience and climate governance. A strong climate governance culture should permeate throughout the organization, and the resilience of the credit union's strategy should be regularly assessed. Boards should ensure that climate change considerations are integrated across the credit union's three lines of defence[157] (separate from the three lines of defence for risk management that were previously discussed).

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[151] OSFI Guideline B-15, *supra* note 14 at 4; WEF, *Effective Climate Governance*, *supra* note 111 at 14.
[152] Hansell, *supra* note 119 at 23.
[153] WEF, *Effective Climate Governance*", *supra* note 111 at 14.
[154] Sarra & Campbell, *supra* note 16 at 96.
[155] TCFD Guidelines, *supra* note 115 at 26.
[156] Sarra & Campbell, *supra* note 16 at 97.
[157] WEF, *Effective Climate Governance*, *supra* note 111 at 14–15; Chartered Institute of Internal Auditors, *Position paper: The three lines of defence* (IIA, Policy Paper, 2021).

Figure 10: The Three Lines of Defence for Climate Governance Integration

Source: Chartered Institute of Internal Auditors, Position paper: The three lines of defence (IIA, Policy Paper, 2021)

4. TARGETS AND METRICS

To ensure the effectiveness of their strategy and risk management processes, credit unions need to establish targets and metrics. These metrics should cover operational risks and the impact of both physical and transitional climate-related risks on their financial activities and lending in the short, medium, and long term.[158] Credit unions should consider their exposure from their lending portfolios when defining these metrics. By setting clear targets and using relevant metrics, credit unions can effectively measure their progress and align their actions with their sustainability objectives.

i. METRICS

Climate-related metrics help organizations understand the potential impacts of climate-related risks and opportunities within a specific timeframe, including financial implications and operational consequences. Credit unions should consider including relevant metrics in their loan portfolio, whenever feasible.[159] By obtaining accurate data on borrower assets and operations, credit unions can evaluate the extent to which their loan portfolio is exposed to climate risks. For more detailed information on the specific metrics that can be included, please refer to the Appendix of this guide.

The TCFD emphasizes that these metrics should possess certain characteristics to ensure effective disclosure.[160]

[158] TCFD Guidelines, *supra* note 115 at 29.
[159] Ceres Report, *supra* note 23 at 52.
[160] Task Force on Climate-related Financial Disclosures, *Guidance on Metrics, Targets, and Transition Plans* (TCFD, 2021) at 11 [hereafter TCFD, *Guidance on Metrics*].

Figure 11: Characteristics of Effective Climate-Related Metrics

Decision-Useful
•Relevant to the credit union's risks & opportunities •Demonstrate how the organization manages risks & opportunities
Clear and Understandable
•Provide important context around management's thinking •Be supported by contexual information
Reliable, Verifiable, and Objective
•Support effective internal controls for data verification & assurance •Be free from bias & value judgment
Consistent Over Time
•Be disclosed consistently to provide comparisons for the tracking of progress •Clearly identify time horizons

Source: Adapted from Task Force on Climate-related Financial Disclosures. Guidance on Metrics, Targets, and Transition Plans (TCFD, 2021).

The TCFD emphasises that financial institutions should incorporate metrics related to climate-related risks associated with water, energy, land use, and waste management, as applicable. They should also outline their alignment with the transition to a sustainable economy in their financial intermediary activities and lending, including using forward-looking metrics, setting GHG emissions targets and monitoring progress, reducing emissions in their operations and value chains, and collaborating with customers to facilitate the transition.[161]

While assessing climate risk poses challenges, the TCFD suggests a combination of qualitative and quantitative data using existing methodologies and available data.[162] Engaging with members who fall within the credit union's scope 1, 2, and 3 GHG emissions can help address data issues and better prepare for climate-related transitions. It's important to recognize the uncertainties, complexity, nonlinearity, and duration of climate change, as well as the limitations in data accuracy and reliability and resource constraints.[163]

Scope 1 emissions include direct emissions from an organization's infrastructure such as buildings and vehicles.

Scope 2 emissions involve indirect emissions resulting from energy purchased by an organization but generated elsewhere (such as electricity from a utility company).

Scope 3 emissions encompass indirect emissions originating from an organization's operations, supply chain, or products and services.

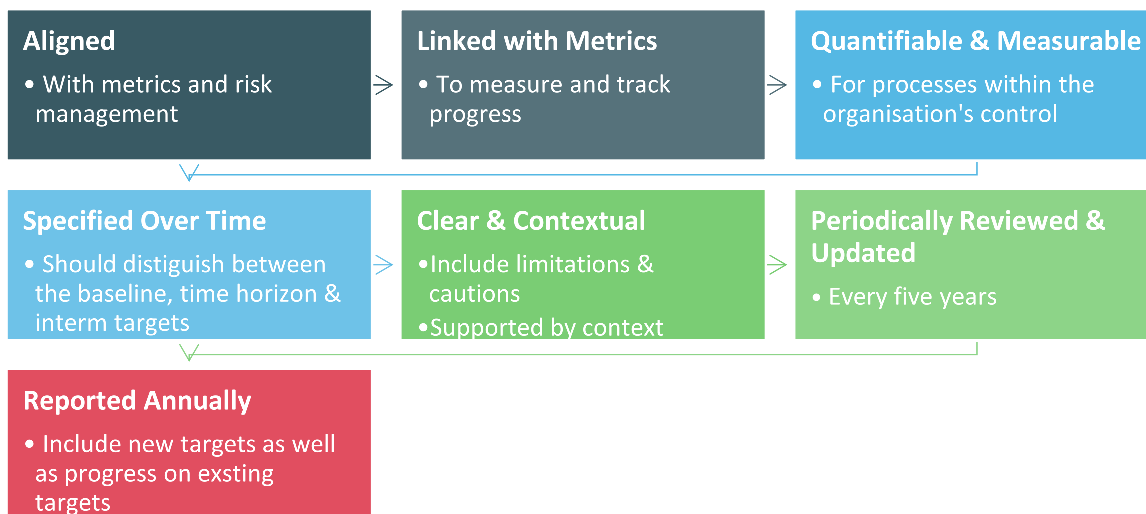
ii. TARGETS

A climate-related target is a specific goal or objective that an organization sets within a defined timeframe to address climate-related risks and opportunities. These targets should be closely

[161] TCFD Guidelines, *supra* note 115 at 29.
[162] *Ibid*.
[163] "Ceres Accelerator for Sustainable Capital Markets", online: *Ceres* <https://www.ceres.org/accelerator> at 52; Basel Committee on Banking Supervision, *Climate-related financial risks: a survey on current initiatives* (BIS, 2020) [hereafter Ceres].

aligned with the organization's strategy, risk management approach, and climate-related metrics.[164] The TCFD has outlined important characteristics that make climate-related targets effective and meaningful.[165]

Figure 12: Characteristics of Effective Climate-Related Targets



Source: Adapted from Task Force on Climate-related Financial Disclosures. Guidance on Metrics, Targets, and Transition Plans (TCFD, 2021).

Credit unions have flexibility in how they set their targets. Some organizations begin by selecting climate-related metrics and then establish targets to align with their climate strategy. Others start by setting targets and then choose climate-related metrics to track and measure their progress towards those targets. The approach can vary depending on the credit union's specific needs and priorities.[166] For more information and practical guidance on target setting, including recommendations, tools, and guidelines to assist credit unions, please refer to the Appendix of this guide. It provides valuable resources to support credit unions in getting started on their target-setting journey.

WEF's Principle 6 and OSFI's Guideline B-15 stress the importance of linking targets and metrics to executive compensation to align the interests of directors and management with climate-related objectives.[167] This can be achieved through compensation programs that incentivize climate-conscious decision-making and risk reduction, supporting effective climate risk management.[168]

Incorporating climate targets into incentivization schemes requires careful consideration to ensure feasibility, comprehensiveness, and appropriate monitoring.[169] The targets should be realistic and achievable while covering a broad range of climate-related implications. By tying

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[164] TCFD, *Guidance on Metrics*, *supra* note 160 at 30.
[165] *Ibid* at 31.
[166] *Ibid* at 30.
[167] OSFI Guideline B-15, *supra* note 14 at 4; WEF, *Effective Climate Governance*, *supra* note 111 at 15; Hansell, *supra* note 119 at 23.
[168] WEF, *Effective Climate Governance*, *supra* note 111 at 15.
[169] *Ibid*.

executive compensation to these targets, credit unions can promote a stronger commitment to addressing climate risks and encourage responsible decision-making that considers the long-term impact of climate-related factors.

5. DISCLOSURE AND COMMUNICATION

Directors have a responsibility to ensure the credit union's compliance with disclosure duties, including climate-related reporting. As such, Directors should stay updated on changes in climate-related reporting requirements applicable to their credit union. As understanding of climate-related risks evolves and reporting frameworks improve, directors should remain aware of these developments and adjust their disclosures accordingly to avoid any breaches.

While provincially regulated credit unions are not currently mandated to disclose climate-related financial information, global trends indicate that more entities across various sectors will likely be required to disclose their climate-related risks and opportunities. By voluntarily adopting reporting practices now, credit unions could be ahead of the curve. Voluntary reporting through initiatives like the TCFD or the International Sustainability Standards Board (ISSB) can also enhance trust and transparency with members and stakeholders.[170]

This guide will provide credit unions with six principles established by OSFI and seven principles established by the TCFD to help them identify and disclose material risks. These principles will also assist in integrating climate-related matters into governance, strategy, risk management, metrics, and targets. By following these principles, credit unions can ensure effective and comprehensive climate-related financial reporting, keeping up with current trends and preparing for future advancements in this area.

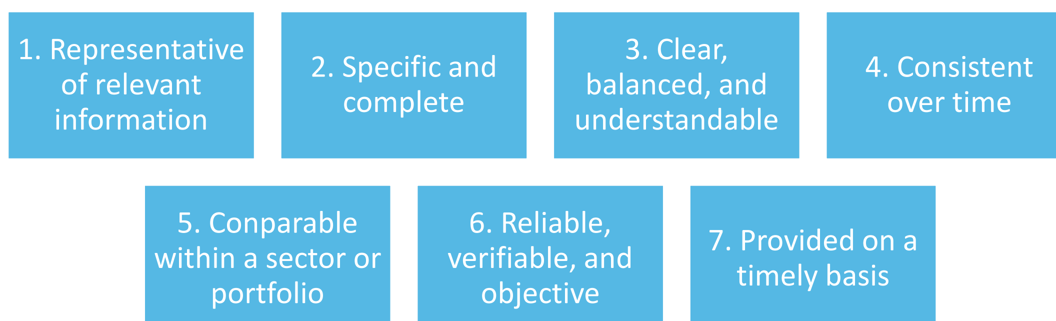
Figure 13: OSFI's Six Principles for Effective Disclosure of Climate-related Risks

Disclosed Information should be:

Source: Office of the Superintendent of Financial Institutions Canada. Guideline B-15 Climate Risk Management (OSFI, 2023).

[170] *Ibid*.

Figure 14: TCFD's 7 Principles for Effective Disclosures



Source: Adapted from Task Force on Climate-related Financial Disclosures. Final Report: Recommendations of the Task Force on Climate-related Financial Disclosures (TCFD, 2017).

WEF's Principle 7 emphasizes the integration of climate-related risks and opportunities into a credit union's strategy and disclosure framework. It stresses that climate-related disclosure should not be separate from financial and annual reports.[171] An integrated approach to reporting ensures that the financial implications of climate change are clearly understood by credit union members and stakeholders.[172] As such, when making climate-related disclosures, it is important for credit unions to do the following.

- Provide sufficient detail for users to understand the credit union's exposure and approach to climate change.
- Avoid redundant information that obscures relevant details.
- Include information on the potential impacts of climate-related risks on the credit union.
- Avoid boilerplate disclosures.
- Use metrics that accurately describe the credit union's management of climate-related risks.
- Be specific about the credit union's exposures and governance of climate-related risks.
- Include both past and future-oriented information.
- Explain the definition, methodology, and scope of quantitative data.
- Include scenario analysis only if it is based on data.
- Serve the needs of various financial sector users.
- Strike a balance between qualitative and quantitative information.
- Provide balanced explanations that offer context for quantitative disclosures.
- Use straightforward explanations of issues.
- Maintain consistency to enable comparisons across organizations, sectors, and jurisdictions.
- Explain any inconsistencies.

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[171] *Ibid* at 16.
[172] *Ibid*; Hansell, *supra* note 119 at 23.

- Enable meaningful comparisons of strategy, activities, risks, and performance.
- Provide enough detail to benchmark risks across sectors.
- Include high-quality and reliable information.
- Base future-oriented disclosures on data.
- Ensure disclosures are verifiable.
- Be timely.

Lastly, WEF Principle 8 highlights the importance of effective climate governance, which involves ongoing communication and engagement with members, experts, policymakers, industry peers, and the local community. This dialogue facilitates the sharing of risk measurement.[173]

B. GUIDING QUESTIONS TO HELP DIRECTORS UNDERSTAND THEIR CURRENT POSITION AND FUTURE DIRECTION

The questions in this section have been adapted from various publications, including the WEF's "Creating Effective Climate Governance for Corporate Boards",[174] the TCFD's Implementing Guidelines,[175] and CCLI publications.[176] However, it's important to note that these questions may not be suitable for all credit unions as they are broad in nature. The board of directors should carefully select the questions that are most relevant and appropriate for their credit union, considering factors such as the governance structure, size, model, knowledge level, and the stage of integration of climate governance, risk management, strategy, targets, metrics, and disclosure that they are presently at.

The climate governance checklist provided below is intended to assist boards in assessing the credit union's management of climate-related issues. For credit unions that are in the early stages of considering climate governance, the below five questions is a good starting point. For more detailed assessment questions, download the full checklist here.

1. Do directors comprehend their obligations to the credit union regarding climate-related risks and opportunities?
2. Does the board have a plan for integrating climate change into the credit union's strategy towards a sustainable economy?
3. Does the board have a process in place for consulting with members on their strategy towards a sustainable economy?
4. Has the board appointed an executive with the primary responsibility for managing climate-related risks and opportunities, and how frequently does that manager provide updates to the directors?
5. Has the board established a strategy to identify, handle, and communicate climate-related risks and opportunities, as well as a plan for transitioning towards achieving a sustainable economy and net-zero financed emissions by 2050?

[173] WEF, *Effective Climate Governance*, *supra* note 111 at 17.
[174] WEF, *Effective Climate Governance*, *supra* note 111.
[175] TCFD Guidelines, *supra* note 115.
[176] Temitope Tunbi Onifade & Helen Tooze, *A Guide to Effective Climate Governance in the Canadian Commercial Real Estate Sector: Building for the Net-Zero Future* (Canada Climate Law Initiative and REALPAC, 2022); Sarra & Campbell, *supra* note 16.

CLIMATE GOVERNANCE CHECKLIST

Below is a summary of questions boards can ask themselves and management. Click here to find the full list of questions.

	Climate Governance Question	Yes or No	Rating out of 10 1= haven't started 10= achieved fully	Notes on Improvement
GOVERNANCE				
1	Does the board of directors consider climate-related risks and opportunities to be a fundamental part of its accountability for the long-term stewardship of the credit union?			
2	How should the board integrate climate change into its board governance structures?			
3	Is the board satisfied that it has the appropriate in-house awareness, understanding, skills, and expertise needed for a robust assessment of the climate-related financial risks and opportunities of the credit union and their relevance to risk management, accounting, and financial statements?			
4	Has the integration of climate issues allowed for constructive interaction between the board and executive management?			
5	How do management and the board gain and maintain an appropriate level of understanding of the foreseeable risks and opportunities associated with climate change for a credit union operating in this sector, market, and geographical region?			
6	How does the board ensure that climate issues are given appropriate consideration and attention across the board and credit union including the audit, risk, nomination and remuneration committees?			
7	Has the board considered whether it would benefit from the advice of external experts?			
8	Are governance procedures reviewed frequently to ensure that climate issues are accurately captured, and oversight is adjusted as climate-related-risks-and-opportunities-management practices develop?			
RISK MANAGEMENT				

9	Has the credit union identified and does the board understand the impact of climate-related risks on the credit union's short-, medium-, and long-term strategic, capital, and financial plans?			
10	How have climate-related issues been considered and integrated into the existing risk management framework?			
11	Is the board overseeing how management is identifying specific climate-related risks that could have a financial impact on the credit union at various time horizons?			
12	Is the climate risk assessment conducted by management and the board sufficiently broad to encompass the breadth and interconnectedness of climate risk? Does it consider risks to and impacts on members and the community?			
13	How is the credit union using scenario analysis to assess the impact of climate-related risks on its risk profile, strategy, and business model?			
14	How are climate-related materiality assessments conducted?			
15	Is the board confident that enough resources have been dedicated to the identification, assessment, management, monitoring, and mitigation of material climate-related risks and opportunities?			
STRATEGY				
16	How should consideration of climate change be integrated into the credit union's strategic planning processes?			
17	Is the board confident that management has a sound strategy to decarbonize across the credit union's value chain?			
18	Does the credit union regularly assess the need for strategies to adapt based on the impact of climate-related issues on financial performance and financial position?			
19	Is the credit union engaging with members at multiple points of interaction to communicate the credit union's strategies to reach net-zero carbon emissions?			
20	Have the potential risks and opportunities to our strategy been stress-tested across scenarios representing the plausible range of climate futures, including a pathway to net-zero emissions?			
21	Does the credit union's strategy include a holistic approach informed by scenario analysis, including climate risk mitigation and adaptation, and business continuity?			
TARGETS AND METRICS				
22	Does the board have a transition plan as recommended by the TCFD?			

23	How does the board set appropriate metrics for the assessment of relevant climate-related issues in the context of our business?			
24	Does the credit union have measures and metrics around climate-related issues and are these measures tracked by the board and considered in disclosure?			
25	Have appropriate resources been directed to collecting accurate data that will assist in developing emissions reduction plans?			
26	Does the board have the information it needs to oversee and approve the setting of targets to manage climate-related risks and opportunities and to measure performance against these targets?			
27	Is the credit union setting clear science-based targets to reduce emissions in its own operations, its financed emissions and the emissions in its value chain?			
28	How does the board communicate our purpose and commitment to transition to sustainability?			
29	Are the metrics on achieving targets being verified by their-party assurance?			
30	Are the board remuneration structures aligned with our strategic approach to climate change?			
DISCLOSURE				
31	Does the credit union report on climate-related material financial risks and opportunities?			
32	Does the credit union have integrated reporting in place?			
33	Does the credit union include climate risk in its Risk Based Supervisory Framework reporting to provincial regulators?			
34	Does the board feel capable of explaining the credit union's climate-related disclosures?			
35	How does the board hold management accountable for executing climate-related disclosures and for maintaining supervision of developing regulations?			
36	How does the board fulfil its duty in relation to the verification of its climate-related disclosures in annual reports and financial filings?			
37	Are our financial disclosures aligned with voluntary climate-related reporting frameworks, such as the TCFD recommendations?			
38	What assessment has been undertaken to ensure that climate-related material information is disclosed in the credit union's financial statements?			

39	Is the credit union reporting on areas where progress has been insufficient and/or where things have not gone to plan?			
40	Is the board confident that the climate-related disclosures are clear, balanced, and understandable?			
41	Is the board confident that the information reported has been verified with respect to how it is defined, collected, recorded, and analysed?			
42	Is the board assured that the credit union is correctly reporting on key climate-related targets for the entire value chain (e.g., emission reduction, energy usage and climate-related biodiversity impacts) in line with financial goals and loss tolerances?			
43	Are directors satisfied that management has factored in expected government actions, including such as carbon-pricing, decarbonisation standards, or income tax-related changes, into the estimates of future cash flows and the discount rate?			
44	Is the credit union disclosing, as an amount or percentage, the proportion of revenues, assets, liabilities, and other business activities aligned with climate-related opportunities?			
45	Do disclosures include information about the credit union industry and policy engagement on climate change?			
46	How does the board ensure that the credit union develops and encourages dialogue ad methodology sharing amount industry peers, members, regulators, and other stakeholders?			

C. CELEBRATING WHAT CANADIAN CREDIT UNIONS HAVE ACHIEVED SO FAR

Canadian credit unions are actively making progress towards sustainability, even those that have not yet fully incorporated climate change as a strategic issue. The CCUA reports the following advancements:

- 60% of Canadian credit unions have committed to reducing paper usage;
- 40% have enhanced energy efficiency and resilience in their buildings;
- 37% are actively recycling to reduce landfill waste;
- 15% of boards have developed strategies to reduce carbon and its environmental impact; and
- 2% have implemented climate-related financial risk disclosures.[177]

Furthermore, six Canadian credit unions have joined the Partnership for Carbon Accounting Financials (PCAF) and pledged to measure and disclose the GHG emissions associated with their loan portfolios. Half of these credit unions have already begun reporting their GHG emissions.[178]

1. VANCOUVER CITY SAVINGS CREDIT UNION (VANCITY)

Vancity, Canada's largest credit union, a member of the Net-Zero Banking Alliance, and a certified B Corp,[179] is widely recognized as a leading advocate for environmental sustainability in the credit union sector.[180] In a global survey of 60 banks in September 2022, Vancity ranked first with an impressive sustainable revenue ratio of 34.13% and total sustainable revenue of US$171.3 million. This ratio was nearly 50% higher than the runner-up, SpareBank 1 Østlandet in Norway.[181] Vancity has been carbon-neutral in its operations since 2008.[182]

Vancity has demonstrated its commitment to transparency and accountability by disclosing its financed emissions. By the end of 2021, it had reported emissions for 82% of its lending.[183] Notably, the total emissions from its on-balance sheet loans and investments were 3% lower than the previous year,[184] and its business loans for operational purposes saw a significant reduction of 15% in absolute Scope 1 and 2 emissions compared to 2020.[185] The credit union actively monitors climate risks, including physical and transition risks, as part of its quarterly evaluation of nine key risk dimensions at the Board and executive leadership levels.[186]

As a signatory to the Principles of Responsible Banking, Vancity aligns its business strategy with the UN's Sustainable Development Goals, the Paris Climate Agreement, and relevant national and regional frameworks.[187] In early 2021, Vancity made five ambitious climate commitments,

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[177] Canadian Credit Union Association, *2020-2021 Community and Economic Impact Report* (CCUA, 2021).
[178] Partnership for Carbon Accounting Financials, "Financial institutions taking action", online: *PCAF* <https://carbonaccountingfinancials.com/financial-institutions-taking-action> [hereafter Partnership for Carbon Accounting Financials].
[179] Canadian Credit Union Association, "Tackling the Threats of Climate Change: Credit Unions Look to Greener Pastures", online: *CCUA* <https://ccua.com/news/tackling-the-threats-of-climate-change-credit-unions-look-to-greener-pastures/> [hereafter CCUA, Tackling the Threats of Climate Change].
[180] Ceres Report, *supra* note 23 at 35.
[181] Corporate Knights & The Banker, *Sustainable Banking Revenues Ranking 2022* (2022).
[182] Vancity, *Climate Report: 2022 Annual Report* (2022).
[183] Vancity, *Vancity 2021 Annual Report: Changemakers* (2021) at 16.
[184] *Ibid* at 18.
[185] *Ibid* at 17.
[186] *Ibid* at 37.
[187] *Ibid* at 42, 45.

including a pledge to achieve net-zero carbon emissions across its lending portfolio by 2040. It plans to achieve this goal by significantly reducing the carbon emissions associated with its financing activities and by purchasing carbon offsets. Vancity also aims to support individuals impacted by climate-related events who aspire to lead more sustainable lifestyles.[188]

2. OMISTA CREDIT UNION

OMISTA, a certified B Corp, encourages its members to embrace eco-friendly practices by offering incentives. Through the Green Choice Home Loan program, members who make environmentally conscious upgrades to their homes, such as installing insulation, energy-efficient windows, doors, appliances, solar panels, geothermal energy systems, heat pumps, or propane boilers, can benefit from discounted loan rates. Similarly, the Green Choice Vehicle Loan program provides rewards to members who choose greener transportation options, including low-emission vehicles, electric bikes, scooters, and non-motorized bikes, through favourable loan terms. These initiatives aim to promote sustainability and support members in adopting environmentally friendly choices. [189]

3. NBTA CREDIT UNION

NBTA Credit Union, a certified B Corp, offers favourable interest rates on loans to individuals who are improving the efficiency of their homes by upgrading their technology. These loans specifically support energy upgrades, including enhancements to insulation, upgrades to windows, installation of more efficient heating and cooling systems, adoption of geothermal and heat pump technologies, implementation of solar technology, and the use of high-efficiency appliances. By providing financing for these energy-saving initiatives, NBTA Credit Union promotes sustainable practices and helps its members make their homes more environmentally friendly and cost-effective.[190]

4. KINDRED CREDIT UNION

Kindred Credit Union, with 25,000 members and $1.6 billion in assets and a certified B Corp, is actively working to address climate change by implementing the recommendations of the PCAF. Notably, Kindred Credit Union has achieved a significant milestone by being the first Canadian financial institution to have all its Canadian Guaranteed Investment Certificates (GICs) verified as socially responsible investments by Sustainalytics. This recognition demonstrates Kindred Credit Union's commitment to promoting sustainable and socially responsible financial products, contributing to the overall mitigation of climate change.[191]

5. INNOVATION CREDIT UNION

Two years ago, Innovation Credit Union became a signatory to the United Nations Environment Programme's Principles for Responsible Banking, joining a group of around 220 financial institutions. By adopting these principles, Innovation Credit Union has committed to aligning its

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[188] *Ibid* at 16.

[189] OMISTA Credit Union, “Green Choice Home and Vehicle Loans”, online: *OMISTA* <https://www.omista.com/Home/ProductsAndServices/YourFinancing/GreenChoiceHomeandVehicleLoans/>.

[190] NBTA Credit Union, “Greener Home Loans - Save Money, Save Energy!”, online: *NBTACU* <https://www.nbtacu.nb.ca/greenerhomeloans/>.

[191] Roberta Staley, “Canadian Credit Unions Join the Battle Against Climate Change”, (7 June 2021), online: *CU Management* <https://www.cumanagement.com/articles/2021/06/canadian-credit-unions-join-battle-against-climate-change>.

strategies and practices with the Sustainable Development Goals and the Paris Climate Agreement. As part of its commitment, Innovation Credit Union is implementing risk management tools like portfolio stress testing and has incorporated sustainability and climate-related aspects into its annual report. These actions demonstrate Innovation Credit Union's dedication to responsible banking and its efforts to address environmental and social challenges.[192]

6. ASSINIBOINE CREDIT UNION

Assiniboine Credit Union, a certified B Corp, has gained recognition as one of Canada's Greenest Employers for ten consecutive years, thanks to its numerous environmental initiatives.[193] Since 2018, Assiniboine has been carbon-neutral, setting an example as the first credit union in Canada to purchase Bullfrog Power Green Natural Gas. Green energy offsets the natural gas usage by putting an equivalent amount of clean energy, sourced from wind and low-impact hydro power, onto the grid. Assiniboine has also made significant reductions in paper usage and waste emissions while actively encouraging its staff to adopt sustainable commuting practices including providing subsidized bus passes, offering a carpooling service, and even installing showers and lockers at branches to support employees who choose to cycle to work. The credit union has demonstrated its commitment to environmental sustainability by achieving a remarkable 56% reduction in GHG emissions since 2012.[194] Furthermore, Assiniboine Credit Union has joined BizforClimate, a business-led advocacy group focused on climate resilience, further highlighting its dedication to sustainable practices.[195]

7. EAST COAST CREDIT UNION

In 2018, East Coast Credit Union showcased its commitment to sustainable practices by becoming the largest credit union in Atlantic Canada to exclusively use 100% green electricity for its 20 branches and 30 ATMs in Nova Scotia. Through its partnership with Bullfrog Power, East Coast Credit Union has injected over 1,125 MWh of renewable electricity into the grid, resulting in the avoidance of more than 1086.8 tonnes of CO2 emissions. By choosing green electricity, the credit union not only reduces its ecological footprint but also contributes to the growth of community-based renewable energy projects in the local area of Nova Scotia. East Coast Credit Union is dedicated to making a positive environmental impact while serving its members and supporting sustainable development in the region.[196]

8. COAST CAPITAL SAVINGS

Coast Capital, a certified B Corp,[197] is actively taking steps to address climate change. They recently conducted their initial assessment of GHG emissions and are now developing a plan to reduce these emissions. Additionally, they continuously invest in upgrading their facilities to improve energy efficiency. Notably, their state-of-the-art Help Headquarters in Surrey, BC, has

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[192] *Ibid*.
[193] Canada's Top 100 Employers, "Canada's Greenest Employers (2022)", (2022), online: *Canada's Top 100* <https://www.canadastop100.com/environmental/>.
[194] Jason Halstead, "Celebrating a carbon-neutral success this Earth Day", (22 May 2020), online: *Asterisk* <https://blog.acu.ca/celebrating-a-carbon-neutral-success-this-earth-day/>.
[195] BizforClimate, "Pledge Signatories - BizforClimate", (25 May 2022), online: *BizforClimate* <https://bizforclimate.com/take-action/pledge-signatories/>.
[196] CCUA, Tackling the Threats of Climate Change, *supra* note 179.
[197] "About B Corp Certification", online: *B Corporation* <https://www.bcorporation.net/en-us/certification>.

achieved LEED Gold certification for its sustainable design and operations. By embracing digital processes, Coast Capital has significantly reduced paper consumption. One noteworthy initiative at their advice centre alone has eliminated over 60,000 pieces of paper annually. Coast Capital is committed to minimizing its environmental impact while embracing sustainable practices throughout its operations.[198]

[198] CCUA, Tackling the Threats of Climate Change, *supra* note 179.

VI. CONCLUSION

In this rapidly changing world, where the climate is changing and extreme weather events are increasing at an alarming rate, credit unions should recognize the urgent need to tackle climate governance as a strategic issue within their organizations and proactively engage in climate governance and management. The impacts of adverse weather events, both chronic and acute, can be mitigated, and our communities protected, by making necessary adaptations. These adaptations require adjustments in our approach to development, skills, and innovations.

Credit unions hold a pivotal role in driving these necessary adaptations. By carefully considering their operational impact, financed emissions, climate governance activities, and disclosure performance, credit unions can make a substantial impact on our collective ability to adapt to climate change. Achieving sustainability and alignment of credit union portfolios with net-zero pathways demands transformative changes in public policy and transitions across the entire value chain of each sector.

While the task may seem formidable, credit union boards have access to an abundance of guidance, frameworks, and expertise to support their efforts in managing climate-related risks and seizing opportunities. By actively staying informed and keeping abreast of evolving methodologies and advancements in understanding climate-related risks and opportunities, credit union boards can proactively steer their institutions toward optimal best practices and regulatory compliance. It is crucial to recognize that methodologies and understanding of climate-related risks and opportunities are continuously evolving. By actively seeking and incorporating the latest knowledge, credit union boards can gain a competitive advantage in aligning their institutions with the most effective strategies and approaches.

Every step taken by credit unions towards sustainability and effective climate governance and management contributes to a more resilient future. By embracing these responsibilities and leveraging available resources, credit unions can demonstrate leadership in addressing climate change, safeguarding their communities, and ensuring the long-term sustainability of their institutions. Together, we have the power to create a better and more resilient world for future generations. Let us seize this opportunity and act with determination.

APPENDICES

A. USEFUL RESOURCES FOR CREDIT UNIONS

Financial institutions have access to a wide range of approaches, tools, and methodologies to assess climate risks and measure and set metrics and targets.[199] These resources can be invaluable for credit unions seeking to accurately measure and model their risks and emissions. They provide practical guidance and frameworks that can assist in establishing realistic and accurate metrics and targets. By leveraging these resources, credit unions can effectively analyze their climate-related challenges and make informed decisions to mitigate risks and achieve their sustainability goals.

The Canadian Credit Union Association (CCUA) provides to member credit unions workshops, discussions, presentations, training, and resources on climate governance topics, along with sector advocacy on climate-related regulatory matters.[200] CCUA has a dedicated Working Group (Climate Action Working Group) formulated to explore the emerging issue of climate-related financial disclosure and raise awareness of climate-related risks, public policy implications, and industry leading climate disclosure frameworks. In addition, CCUA has a dedicated ESG Resource Centre that serve as a reference point for its members to steer their ESG, Social Purpose and Sustainability journey.

The Canada Climate Law Initiative (CCLI) is a non-profit organization that provides support to boards by offering free and confidential presentations on assessing, managing, and disclosing climate-related risks. Their Climate Governance Expert Program equips boards with the necessary knowledge and tools to navigate the complexities of climate governance.[201] Additionally, they offer a range of comprehensive guides and publications to assist organizations in transitioning to net-zero effectively and efficiently.[202] These resources serve as practical references, providing step-by-step guidance to help organizations successfully navigate their sustainability journey.

The Climate Safe Lending Network is a global coalition of financial industry organizations dedicated to accelerating the decarbonization of the financial sector.[203] Their collective goal is to drive meaningful action towards a sustainable future. In October 2021, the network unveiled the "Good Transition Plan," a practical roadmap that helps financial services providers, including banks and credit unions, establish effective climate transition strategies. This plan serves as a valuable resource, offering clear guidance on how to navigate the complexities of transitioning to a low-carbon economy. The network also offers a range of complimentary strategic resources aligned with the GFANZ structure for financial institution transition plans. These resources are specifically designed to facilitate productive conversations and foster resolutions within banks, as well as between banks and their stakeholders. By utilizing these tools, financial institutions can

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[199] Paul Smith, *The Climate Risk Landscape: A comprehensive overview of climate risk assessment methodologies* (UNEP FI, 2021) at 15 [hereafter Paul Smith].

[200] “2021 Community Impact and Climate Action Wrap Up”, online: *CCUA* <https://ccua.com/news/2021-community-impact-and-climate-action-wrap-up/>.

[201] “Confidential Presentations to Boards”, online: *Canada Climate Law Initiative* <https://ccli.ubc.ca/what-we-do/confidential-board-presentations/>.

[202] “Our Knowledge Hub”, online: *Canada Climate Law Initiative* <http://ccli.ubc.ca/knowledge-hub/>.

[203] “Climate Safe Lending Network”, online: *Climate Safe Lending* <https://www.climatesafelending.org>.

develop and implement robust Good Transition Plans that align with global sustainability objectives.[204]

The Ceres Accelerator for Sustainable Capital Markets is a program focused on transforming the practices and policies within capital markets to drive the transition towards a net-zero emissions economy. The Ceres Accelerator aims to inspire substantial changes in behaviour and systems within the financial services sector. They provide valuable reports that are relevant to stakeholders in the industry. Additionally, the program offers a range of helpful tools and videos designed to support credit unions that are eager to learn and take action on climate-related issues. By leveraging these resources, credit unions can enhance their understanding and implement effective strategies to contribute to a sustainable future.[205]

The Net-Zero Banking Alliance is a global alliance of banks that have come together under the auspices of the United Nations to collectively commit to aligning their lending and investment activities to achieve net-zero emissions by 2050. This industry-led group provides a platform for banks to collaborate, share knowledge, and learn from one another. By working together, they can develop industry frameworks and guidelines that promote sustainable practices and contribute to the transition to a low-carbon economy. Through this network, banks can accelerate their efforts to address climate change and drive positive impact on a global scale.[206]

The Sustainable Markets Initiative (SMI) is a collaborative initiative led by King Charles and the World Economic Forum, in partnership with renowned global organizations, aimed at accelerating the transition to a net-zero emissions future. SMI brings together CEOs from major banks in a task force that provides guidance and tools for effective risk mitigation and climate transition planning. Recently, the task force released a comprehensive "Practitioner's Guide for Banks" that presents a practical methodology and goal-setting framework for financial institutions to achieve net-zero emissions. The guide outlines six key actions, including defining emission scope, establishing baseline measurements, selecting future emissions scenarios, assessing portfolio alignment, setting emissions reduction targets, and leveraging carbon offsets. These resources empower financial institutions to proactively address climate change and make tangible progress towards a sustainable future.[207]

The Global Alliance for Banking on Values (GABV) is a global network of 67 financial institutions that utilize finance as a means to drive sustainable economic, social, and environmental development. GABV organizes a renowned conference for its members and actively contributes to the development of research and resources that empower these organizations in their mission.[208]

The Climate Risk Landscape: A Comprehensive Overview of Climate Risk Assessment Methodologies presents a detailed compilation of 18 tools and methodologies that can assist credit unions in monitoring, measuring, and analyzing transition risks.[209] The report provides concise overviews of each tool/methodology and includes helpful comparison tables to aid credit

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[204] "The Good Transition for Banking", online: *Climate Safe Lending Network* <https://www.climatesafelending.org/good-transition-for-banks>.
[205] Ceres, *supra* note 163.
[206] "Net-Zero Banking Alliance", online: *UNEPFI* <https://www.unepfi.org/net-zero-banking/>.
[207] "Home", online: *Sustainable Markets Initiative* <https://www.sustainable-markets.org/home>.
[208] "Global Alliance for Banking on Values", online: *GABV* <https://www.gabv.org/>.
[209] Paul Smith, *supra* note 199 at 15.

unions in selecting the most suitable option for their needs. Although not exhaustive, this resource offers valuable insights for navigating transition risks in the financial sector.

The Partnership for Carbon Accounting Financials (PCAF) is a leading organization dedicated to empowering financial institutions, including credit unions, in assessing and disclosing the GHG emissions associated with their investments and loans. With the support of industry groups, PCAF has established a global benchmark for measuring and disclosing GHG emissions, along with a comprehensive set of tools to implement this standard across various financial products.[210] PCAF's resources include lending case studies that highlight how institutions can integrate GHG emissions considerations into their lending practices.[211] For credit unions, PCAF offers a range of models and case studies that can be used to calculate the balance sheet or financed emissions related to different asset classes, such as mortgages, vehicle loans, and commercial real estate.[212] Furthermore, PCAF's Strategic Framework for Paris Alignment provides detailed guidance to financial institutions on aligning their activities with the goals of the Paris Agreement. This framework serves as a valuable resource, helping credit unions navigate the multitude of climate initiatives and effectively work towards their alignment goals.[213]

The GHG Protocol offers free online tools to help organizations, including credit unions, estimate their GHG emissions in Scope 1, Scope 2, and Scope 3. These tools include calculation tools tailored to different sectors, allowing credit unions to determine their GHG emissions across various areas.[214] Additionally, in collaboration with Quantis, offers a Scope 3 emissions screening tool. This tool assists credit unions in making an initial estimation of their Scope 3 emissions, providing a rough calculation of their emission levels in this category. These resources are valuable in helping credit unions assess and understand their environmental impact.[215]

Vancity provides valuable guidance and support to other organizations striving to achieve carbon neutrality. They collaborate with Ecotrust Canada's Climate Smart program to conduct workshops that offer training on various aspects, including reducing GHG emissions, tracking emissions and collecting relevant data, utilizing carbon offsets, and disclosing all necessary information.[216] Furthermore, Vancity shares its experience in applying the carbon emissions methodology established by the PCAF to different aspects of its operations. They provide detailed calculations, a suggested reporting template, and insights gained from their efforts. This knowledge-sharing helps organizations understand and implement effective strategies to manage their GHG emissions, particularly in areas such as mortgages, commercial loans, vehicle loans, and member investment portfolios.[217]

[210] "The Global GHG Accounting and Reporting Standard", online: *Carbon Accounting Financials* <https://carbonaccountingfinancials.com/>.
[211] *Ibid*.
[212] Partnership for Carbon Accounting Financials, *supra* note 178.
[213] Partnership for Carbon Accounting Financials, *Strategic Framework for Paris Alignment* (PCAF, 2021).
[214] Greenhouse Gas Protocol, "Calculation Tools", online: *Greenh Gas Protocol* <https://ghgprotocol.org/calculation-tools#cross_sector_tools_id>.
[215] Greenhouse Gas Protocol, "Scope 3 Evaluator", online: *Quantis* <https://quantis-suite.com/Scope-3-Evaluator/>.
[216] "How your organization can be carbon neutral - Vancity", online: *Vancity* <https://www.vancity.com/AboutVancity/VisionAndValues/ValuesBasedBanking/EnvironmentalSustainability/VancityIsCarbonNeutral/HowYouCanBeCarbonNeutral/>.
[217] Partnership for Carbon Accounting Financials, "Vancity Mortgages", online: *PCAF* <https://carbonaccountingfinancials.com/bestpractice/vancity-mortgages>.

B. CREDIT UNION DISCLOSURE CONSIDERATIONS PER SECTOR

Credit unions have strong connections to various sectors of the economy through their loan portfolios and community engagement and may need to disclose specific information related to these sectors. Here are the key disclosures relevant to each sector:

Energy: Credit unions should provide both qualitative and quantitative assessments of the impacts and potential risks or opportunities associated with energy-related factors including changes in compliance and operating costs, exposure to regulatory changes, and the need to adapt investment strategies to align with renewable energy and efficient water usage.[218]

Transportation: Credit unions should assess the financial risks and potential impacts related to their current transportation equipment and investments including considering policy constraints, emerging technologies, and shifts in demand for different types of transportation. They should also explore opportunities to leverage new technologies to meet lower-emissions standards and fuel-efficiency requirements.[219]

Construction, building, and materials: Credit unions should evaluate the impacts of stricter emissions constraints and potential costs associated with carbon pricing. They should also assess risks related to weather events and water scarcity, considering how these factors affect their operating environment. Furthermore, credit unions should identify opportunities to develop products or services that improve efficiency, reduce energy consumption, and support sustainable product solutions.[220]

Agriculture, fisheries, and forest products: Credit unions should provide qualitative and quantitative information on policy and market risks in terms of greenhouse gas emissions and water, as well as opportunities for carbon sequestration and sustainable food and fibre production, including efforts to reduce emissions and water intensity, improve recycling practices, and address climate-related impacts on food and fibre production. Credit unions should also consider opportunities in business and consumer trends towards lower-emission and sustainable products and processes in the agriculture and forest product sectors.[221]

By including these sector-specific disclosures, credit unions can provide a comprehensive overview of their assessment, management, and potential opportunities related to climate-related risks within their investments and operations.

C. THE GENERAL DUTIES OF DIRECTORS UNDER THE LAW

Following on from the legal duties mentioned in Section II of this Guide, the specific extent of these duties can vary depending on the particular case before the court.[222] Courts take a common-sense approach, considering the past application and modification of the rules over the years. A breach of duties needs to be genuine rather than merely theoretical or rhetorical.[223] The precise responsibilities of directors or officers in a credit union are influenced by the

[218] TCFD Guidelines, *supra* note 115 at 64.
[219] *Ibid* at 65.
[220] *Ibid* at 66.
[221] *Ibid* at 68.
[222] *Framlington Group plc v Anderson*, [1995] 1 B.C.L.C. 475, [1995] B.C.C. 611 at para. 65, per Blackburne J.
[223] *Boulting v Association of Cinematograph Television and Allied Technicians*, [1963] 2 Q.B. 606 at 637-38 (C.A.), per Upjohn L.J

organization's structure and the role they play or are expected to play in its business and affairs.[224]

1. DUTY OF CARE

A duty of care includes the fiduciary obligations of care and loyalty.[225] Directors must act in the best interests of the credit union with honesty and good faith, considering the long-term well-being of the organization.[226] These responsibilities are based on Canadian common law and are also outlined in statutory regulations.[227] The duty of care for directors and officers is a specific aspect of the broader duty of care within the legal system's negligence framework. The duty of care for directors and officers involves four key elements:

1. Directors must effectively manage and supervise the credit union's business operations, ensuring informed decision-making and appropriate monitoring procedures.
2. Directors have a duty to investigate and address any concerns raised by relevant information.
3. Directors are responsible for implementing and utilizing a reasonable decision-making process.
4. Directors must avoid making decisions that are clearly unreasonable.[228]

Directors of credit unions also have a duty to be prudent in their lending and investment policies. Specifically, the "investment and lending policies of a credit union shall consist of policies, standards and procedures that a reasonable and prudent person would apply in respect of a portfolio of investments and loans in order to avoid undue risk of loss and obtain a reasonable return."[229]

Directors are expected to be well-informed and independent in their decision-making, encompassing all aspects of the credit union. The assessment of whether a director has made an informed decision is based on the information that was reasonably available to them at the time, including relevant facts that could have been discovered through reasonable inquiry.[230] Directors need to acquire knowledge, skills, and experience to make informed decisions. The law does not require directors to possess any specific skills beyond what is reasonable for their role,[231] unless the director is assigned tasks that require a certain level of expertise, then they will be held to a higher standard.[232]

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[224] *Bishopsgate Investment Management Ltd. (in liq.) v Maxwell*, [1993] B.C.C. 120 at 139C, per Hoffmann J.

[225] Sarra & Campbell, *supra* note 16 at 76–77.

[226] *BCE Inc v 1976 Debentureholders*, 2008 3 SCR 560 at para 38 [hereafter *BCE v 1976*].

[227] *The Credit Unions and Caisses Populaires Act,* CCSM c C301 [hereafter *The Credit Unions and Caisses Populaires Act (Manitoba)*]; *The Credit Union Act,* SS 1998 c C-45.2 [hereafter *The Credit Union Act (Saskatchewan)*]; *Credit Unions and Caisses Populaires Act,* SO 1994 c 11 [hereafter *Credit Unions and Caisses Populaires Act (Quebéc)*]; *Credit Unions Act,* RSPEI 1988 c C-29.1 [hereafter *Credit Unions Act (Prince Edward Island)*]; *Credit Unions and Caisses Populaires Act (Ontario)*, *supra* note 98; *Credit Union Act,* SNS 1994 c 4 [hereafter *Credit Union Act (Nova Scotia)*]; *Credit Union Act,* SNL 2009 c C-37.2 [hereafter *Credit Union Act (Newfoundland & Labrador)*]; *Credit Unions Act,* SNB 2019 c 25 [hereafter *Credit Unions Act (New Brunswick)*]; *Credit Union Incorporation Act,* RSBC 1996 c 82 [hereafter *Credit Union Incorporation Act (British Columbia)*]; *Financial Institution Act,* RSBA 1996 c 141 [hereafter *Financial Institution Act (British Columbia)*]; *Credit Union Act,* RSA 2000 c C-32 [hereafter *Credit Union Act (Alberta)*].

[228] Kevin P McGuinness, *supra* note 17, s §14.22.

[229] *Credit Unions and Caisses Populaires Act (Ontario)*, *supra* note 98, s 153(2).

[230] See, generally, *McMullin v Beran*, 765 A.2d 910 (Del. S.C. 2000).

[231] *Re Owen Sound Lumber Co*., [1917] O.J. No. 144, 38 O.L.R. 414 at 431 (Ont. C.A.), per Hodgins J.A. (auditor not expected to possess any particular degree of skill); *Vancouver (City) v Burchill*, [1932] S.C.J. No. 43, [1932] S.C.R. 620 (S.C.C.) (failure to hold a mandatory licence was held not to be evidence of negligence.

[232] Kevin P McGuinness, *supra* note 17, s §14.28-§14.29.

The Supreme Court of Canada has set the objective standard of a "reasonably prudent person" for a director's duty of care.[233] Directors and officers must make reasonable business decisions considering all circumstances, including "prevailing socio-economic conditions, about which they knew or ought to have known."[234] Violating these obligations occurs when directors either "(a) put the corporation at undue risk, or (b) are wilfully blind to the corporation's financial status."[235]

Directors can breach their duties of care if they overlook the ongoing effects of climate change and the associated risks and opportunities it poses to the credit union. Regardless of personal opinions on climate change, directors are expected, as part of their fiduciary duties to be cognizant of all risks to the credit union, and to be fully informed about its impacts on their credit union.

There is a wealth of information available from experts, legal, climate, and government authorities, as well as non-profit organizations that support businesses. Courts would expect a reasonable person in similar circumstances to be aware of this information. Although the basis for a credit union's board structure is inherent in its voluntary and member-based composition. And their user perspective is what highlights the very nature of the credit union's cooperative approach and democratic principles. Seeking occasional expert opinions and guidance on issues as important as climate change will help to ensure that the board is equipped with the knowledge it needs to best serve the credit union, its members, and the community.

2. STANDARD OF CARE

In exercising their duty of care, directors must exercise care, skill, and diligence in line with a reasonably prudent person in similar circumstances.[236] Directors should, therefore, be cautious without being overly risk-averse.[237] The level of care, skill, and diligence that the director must employ will be held to the standard of a reasonably prudent person.[238] Directors should consider the "comparable circumstances" when evaluating their actions, taking into account the broader context and relevant factors to determine the credit union's best interests.[239]

> ***Case Study:*** In the case of *Distribulite Ltd. v. Toronto Board of Education Staff Credit Union Ltd*,[1] a credit union was found liable for its failure to ensure that management was competent and informed and to ensure adequate oversight of the running of the credit union.

The standard of care for directors is objective and should not be influenced by personal views on climate change.[240] When directors act diligently, courts generally respect their decisions under

[233] *Peoples Department Stores Inc (Trustee of) v Wise*, 2004 3 SCR 461 [hereafter *Peoples v Wise*]; *BCE v 1976*, *supra* note 226.
[234] *Peoples v Wise*, *supra* note 233 at 463.
[235] Kevin P McGuinness, *supra* note 17, s §14.23. See also *Susi v Bourke*, [2014] O.J. No. 11, 22 B.L.R. (5th) 267 (Ont. S.C.J.), per Gordon J.
[236] *The Credit Unions and Caisses Populaires Act (Manitoba)*, *supra* note 227; *The Credit Union Act (Saskatchewan)*, *supra* note 227; *Credit Unions and Caisses Populaires Act (Quebéc)*, *supra* note 227; *Credit Unions Act (Prince Edward Island)*, *supra* note 227; *Credit Unions and Caisses Populaires Act (Ontario)*, *supra* note 98; *Credit Union Act (Nova Scotia)*, *supra* note 227; *Credit Union Act (Newfoundland & Labrador)*, *supra* note 227; *Credit Unions Act (New Brunswick)*, *supra* note 227; *Credit Union Incorporation Act (British Columbia)*, *supra* note 227; *Financial Institution Act (British Columbia)*, *supra* note 227; *Credit Union Act (Alberta)*, *supra* note 227.
[237] Hansell, *supra* note 119 at 14.
[238] *Peoples v Wise*, *supra* note 233; *BCE v 1976*, *supra* note 226.
[239] *Peoples v Wise*, *supra* note 233 at paras 62 and 67.
[240] Janis Sarra, "Duty to Protect: Corporate Directors and Climate-Related Financial Risk" (2021) CD Howe Inst 1 at 14.

the business judgment rule. This rule assumes that directors make well-informed and honest decisions based on what they reasonably knew at the time.[241] However, this defence won't apply if decisions are made with poor judgment or if a director fails to act when it would have been reasonable to do so.[242]

The standard of care for a reasonably prudent person in similar circumstances applies to the board's oversight of management.[243] Carol Hansell highlights the board's duty to actively oversee their reliance on management, particularly regarding climate-related information.

> Since there can be little doubt that directors are aware of climate change risk, they must inform themselves of the risk that climate change poses to the corporation and how that risk is being managed. If this information is not already included in management reports to the board, the board should direct management to deliver the necessary information to them.[244]

Given the prevalence of climate risks and their impacts, it is expected that a reasonably prudent director in comparable circumstances would actively assess the ongoing situation and develop strategies that encompass short, medium, and long-term perspectives. There may be conflicts between a credit union's focus towards members and the requirement to ensure that management is providing the necessary climate-related information to the board, especially when this may alienate parts of the credit union's membership and affect the long-term viability of the credit union. This is when the cooperative principles and values can play an important role for credit unions. Each credit union can have proactive and productive conversations with their membership on the future climate-related strategy of the credit union that will best serve the members and the community in mitigating and managing the impact of climate-related risks.

Numerous Canadian companies aim to enhance investor confidence by voluntarily participating in initiatives like the Taskforce for Climate-related Financial Disclosures (TCFD) framework and the International Sustainability Standards Board (ISSB). The ISSB establishes internationally recognized standards for disclosing sustainability information in climate governance, guided by the International Financial Reporting Standards (IFRS).[245] To ensure the relevance and alignment of sustainability reporting standards in Canada, the newly introduced Canadian Sustainability Standard Board (CSSB) oversees the implementation of ISSB sustainability disclosure standards.[246] Although credit unions do not have investors, they do have members and these initiatives provide credit unions with an opportunity to initiate meaningful discussions on effective climate governance within the cooperative, involving its members. By opting to disclose climate governance initiatives, practices, strategies, and targets to its members, the credit union demonstrates a commitment to engaging with them on these crucial matters and fosters a constructive dialogue about the credit union's climate governance approach, aligning it with the members' interests and concerns.

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[241] *Peoples v Wise*, *supra* note 233 at paras 64–65, 67.

[242] Langstaff, King, & Parker, *supra* note 122 at 3; Kevin P McGuinness, *supra* note 17. It is theoretically possible for circumstances to arise in which the corporation suffers a loss eventuated not from a decision made by the directors, but rather from their careless inaction—generally in the form of inadequate oversight of corporate operations.

[243] Hartley R Nathan QC, *supra* note 17 at 5; *Director's Handbook 2016*, *supra* note 18 at 7, 19–20.

[244] Hansell, *supra* note 119 at 22.

[245] "International Sustainability Standards Board", online: *IFRS* <https://www.ifrs.org/groups/international-sustainability-standards-board/>.

[246] "Canadian Sustainability Standards Board", online: *FRAS Canada* <https://www.frascanada.ca/en/cssb>.

While regulatory requirements regarding climate governance under the director's duties vary by province, it is important to note that some provinces have yet to establish specific regulations directly related to climate change and credit unions. Currently, Ontario and British Columbia are leading the way with concrete initiatives to address climate-related risks through climate governance in credit unions.

In Ontario, the Financial Services Regulatory Authority (FSRA) has plans to issue guidance specifically focused on climate-related risks for credit unions.[247] This guidance will provide credit unions with valuable direction on incorporating climate considerations into their risk management frameworks and overall governance practices.

Similarly, the British Columbia Financial Services Authority (BCFSA) has set its sights on addressing "natural catastrophe and climate risk" over the next three years.[248] This forward-looking approach acknowledges the significance of climate-related risks and aims to equip credit unions with the necessary tools and strategies to effectively navigate these challenges.

It is worth noting that while Ontario and British Columbia are currently at the forefront, other provinces are also exploring or considering similar measures in the future. As climate change continues to be a pressing concern, it is anticipated that more provinces will take steps to address climate-related risks in line with OSFI's Guideline B-15 and establish regulations to ensure credit unions are adequately prepared.

As the landscape evolves, credit unions across all provinces should remain vigilant and proactive in assessing and managing climate-related risks, even in the absence of specific regulations. By adopting best practices and incorporating climate considerations into their governance frameworks, credit unions can strengthen their resilience, safeguard their members' interests, and contribute to a sustainable future.

Table 2: Provincial Regulation Governing Credit Union Directors' Duties

Province	Act	Sect	
Alberta	Credit Union Act[249]	73	(1) A director or officer of a credit union, in exercising the director's or officer's powers and performing the director's or officer's duties, shall: (a) act honestly, in good faith and with a view to the best interests of the credit union as a whole, (b) exercise the care, diligence and skill that a reasonably prudent person would exercise in comparable circumstances, and (2) In considering whether a particular transaction or course of action is in the best interests of the credit union as a whole, a director or officer shall also have due regard to the interests of all customers who have deposits with it.

[247] FSRA, *Proposed Operational Risk and Resilience*, *supra* note 61 at 16; *Sound Business and Financial Practices*, *supra* note 61.
[248] British Columbia Financial Services Authority, *supra* note 62 at 10–14.
[249] *Credit Union Act (Alberta)*, *supra* note 227.

British Columbia	Financial Institution Act[250] by virtue of the Credit Union Incorporation Act[251]	101	(1) A director or officer of a financial institution, in exercising the powers and performing the functions of a director or officer, must: (a) act honestly, in good faith and in the best interests of the financial institution, and (b) exercise the care, diligence and skill of a reasonably prudent person under comparable circumstances, and in doing so must take into account the interests of shareholders, depositors, if any, and policy holders, if any, and, without limiting this, of those to whom the directors owe a fiduciary duty.
Manitoba	The Credit Unions and Caisses Populaires Act[252]	94	Every director and officer of a credit union, in exercising the powers and discharging the duties of a director or officer shall (a) act honestly and in good faith with the view to the best interest of the credit union; and (b) exercise the care, diligence and skill that a reasonably prudent person would exercise in comparable circumstances.
New Brunswick	Credit Unions Act[253]	116	(1) Every director and officer of a credit union in exercising their powers and discharging their duties shall act honestly and in good faith with a view to the best interests of the credit union and exercise the care, diligence and skill that a reasonably prudent person would exercise in comparable circumstances.
Newfoundland & Labrador	Credit Union Act[254]	86	(1) A director and officer of a credit union, in exercising the powers and discharging the duties of a director or an officer, shall: (a) act honestly and in good faith with a view to the best interests of the credit union; and (b) exercise the care, diligence and skill that a reasonably prudent person would exercise in comparable circumstances.
Nova Scotia	Credit Union Act[255]	100	(1) Every director and officer of a credit union, in exercising the powers and discharging the duties of a director or officer, shall: (a) act honestly and in good faith with the view to the best interest of the credit union; and

[250] *Financial Institution Act (British Columbia), supra* note 227.
[251] *Credit Union Incorporation Act (British Columbia), supra* note 227.
[252] *The Credit Unions and Caisses Populaires Act (Manitoba), supra* note 227.
[253] *Credit Unions Act (New Brunswick), supra* note 227.
[254] *Credit Union Act (Newfoundland & Labrador), supra* note 227.
[255] *Credit Union Act (Nova Scotia), supra* note 227.

			(b) exercise the care, diligence and skill that a reasonably prudent person would exercise in comparable circumstances.
Ontario	Credit Unions and Caisses Populaires Act[256]	109	(1) Every director, officer and member of a committee shall exercise their powers and discharge their duties honestly, in good faith and in the best interests of the credit union. (2) The director, officer or committee member shall exercise the degree of care, diligence and skill that a reasonably prudent person would exercise in comparable circumstances.
Prince Edward Island	Credit Unions Act[257]	40	Directors and officers of a credit union in exercising their powers and discharging their duties shall (a) act honestly and in good faith with a view to the best interests of the credit union; and (b) exercise the care, diligence and skill that a reasonably prudent person would exercise in comparable circumstances; (c) avoid conflict of interest
Quebéc	Credit Unions and Caisses Populaires Act[258]	144	(1) Every director, officer and member of a committee shall exercise the powers and discharge the duties of his or her office honestly, in good faith and in the best interests of the credit union. (2) The director, officer or committee member shall exercise the degree of care, diligence and skill that a reasonably prudent person would exercise in comparable circumstances.
Saskatchewan	The Credit Union Act, 1998[259]	112	(1) Every director and officer of a credit union in exercising his or her powers and fulfilling his or her duties shall: (a) act honestly and in good faith with a view to the best interests of the credit union; (b) exercise the care, diligence and skill that a reasonably prudent person would exercise in comparable circumstances

Source: Author's Design.

[256] *Credit Unions and Caisses Populaires Act (Ontario)*, *supra* note 98.
[257] *Credit Unions Act (Prince Edward Island)*, *supra* note 227.
[258] *Credit Unions and Caisses Populaires Act (Quebéc)*, *supra* note 227.
[259] *The Credit Union Act (Saskatchewan)*, *supra* note 227.

D. CLIMATE DISCLOSURE METRICS RELEVANT TO FINANCIAL INSTITUTIONS

The TCFD Report Playbook identifies several climate disclosure metrics relevant to financial institutions that provide insights into the climate-related risks and opportunities within a portfolio. These metrics include:

- **Exposure to carbon-related assets** - the amount or share of carbon-related assets in a portfolio.
- **Exposure to climate-sensitive assets** - the amount or share of assets in a portfolio that are sensitive to climate change.
- **Expected losses under climate scenarios** - the sum of possible losses under different climate scenarios, weighted by the probability of occurrence.
- **Climate-adjusted loan-to-value ratios** - adjusted ratios based on the probability of extreme events affecting properties over the average remaining mortgage term.
- **Climate Value at Risk (VaR)** - valuation assessments measuring climate-related risks.
- **Correlation between asset values and extreme events** - assessing how extreme events may impact asset values.
- **Carbon footprint** - the total carbon emissions associated with a portfolio's market value.
- **Carbon intensity** - the volume of carbon emissions per unit of revenue in a portfolio.
- **Weighted average carbon intensity** - the portfolio's exposure to carbon-intensive companies.
- **Total carbon emissions** - including Scope 1, 2, and 3 emissions.
- **Portfolio scenario alignment metrics** - forward-looking analysis on portfolio emissions and alignment with sectoral decarbonization trajectories.
- **Portfolio-implied temperature** - estimating the future warming level the portfolio is currently aligned with based on emissions forecasts and temperature projections.[260]

E. TARGET SETTING RESOURCES

The UNEP FI Guidelines for Climate Target Setting for Banks,[261] along with the TCFD,[262] provide principles and recommendations for setting targets. These include:

- Set a target for 2030 and 2050 as a minimum requirement.
- Establish interim targets every five years following the initial interim target.
- Disclose long-term and intermediate targets that align with widely accepted science-based decarbonization scenarios, supporting the transition to a net-zero economy by 2050.
- Regularly review targets to ensure they align with the latest climate science.
- Include clients' Scope 1, 2, and 3 emissions in target-setting, where feasible. Scope coverage should increase over time.
- Disclose Scope 1 and 2 emissions regardless of materiality.

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[260] Institute of International Finance, EY, & UN Environment Programme Finance Initiative, *TCFD Report Playbook* (UNEP FI, 2021) at 28.
[261] UN Environment Programme Finance Initiative, *Guidelines for Climate Target Setting for Banks* (UNEP FI, 2021) [hereafter UN Environment Programme Finance Initiative].
[262] TCFD Guidelines, *supra* note 115.

- Disclose Scope 3 emissions, when possible, particularly those associated with the credit union's balance sheet, such as emissions from loans.
- Disclose targets by industry and credit quality, including the proportion of carbon-related assets relative to total assets and the amount of financing related to climate-related opportunities.
- Establish an emissions baseline and regularly measure and report the emissions profile of lending portfolios and investment activities on an annual basis.[263]

There are several tools and guidelines available that provide practical resources to assist credit unions in getting started with their climate-related efforts. These include:

- The Partnership for Carbon Accounting Financials (PCAF) Global GHG Accounting and Reporting Standard for the Financial Industry. This tool helps financial institutions assess and disclose the GHG emissions associated with their loans and investments.[264]
- PCAF guidance is specifically designed for banks with mortgages and commercial real estate portfolios, focusing on financing the transition to net-zero in the European building sector.[265]
- The COP26 Private Finance Hub Portfolio Alignment Team offers different approaches to aligning portfolios with climate goals including measuring the percentage of portfolios with net-zero targets or evaluating the deviation of portfolios from a target or benchmark.[266]
- In March 2023, the Canadian government's Sustainable Finance Action Council (SFAC) published a roadmap for green and sustainable finance. The SFAC's taxonomy roadmap aims to provide clarity and consistency in identifying and supporting sustainable projects and investments in Canada while advancing the country's climate and sustainability goals. This roadmap includes the establishment of a Taxonomy Council and advisory groups consisting of financial, governmental, Indigenous, and civil society representatives. The main objective of the taxonomy is to provide a science-based framework that promotes the issuance of green and transition financial instruments aligning with Canada's net-zero emissions goal by 2050 and the Paris Agreement's commitment to limit global temperature rise to below 1.5°C compared to pre-industrial levels across all emissions (Scope 1, 2, and 3). To be considered eligible under the taxonomy, companies must meet certain criteria, including setting net-zero targets, engaging in transition planning, and practicing effective climate disclosure. The taxonomy provides a categorization framework to determine whether a project qualifies as "green”, or "transition" based on specific eligibility criteria. Additionally, projects undergo an assessment against "do no significant harm" criteria to ensure they align with other environmental, social, and governance (ESG) objectives and avoid any detrimental impacts.[267]

[263] UN Environment Programme Finance Initiative, *supra* note 261 at 6; TCFD Guidelines, *supra* note 115 at 29–30.
[264] Partnership for Carbon Accounting Financials, *The Global GHG Accounting and Reporting Standard for the Financial Industry* (PCAF, 2020).
[265] Partnership for Carbon Accounting Financials, *Guidance on financing the European building transition to net zero* (PCAF, 2022).
[266] Portfolio Alignment Team, *Measuring Portfolio Alignment: Assessing the Position of Companies and Portfolios on the Path to Net Zero* (PAT, 2021).
[267] Sustainable Finance Action Council, *Taxonomy Roadmap Report: Mobilizing Finance for Sustainable Growth by Defining Green and Transition Investments* (SFAC, 2022).

F. SUMMARY OF CLIMATE GOVERNANCE FRAMEWORKS

Table 3: Summary Table of the Different Climate Governance Frameworks

Element of Effective Climate Governance	WEF	Recommendations	TCFD	Recommendations
Governance	Principle 1	The board is accountable for the long-term stewardship of the credit union.	Pillar 1	Disclose the organization's governance around climate-related risks and opportunities.
		The board is accountable for the long-term resilience with regard to changes to the business environment caused by climate change.		
		Failure to do so may constitute a breach of directors' duties.		Describe the board's oversight of climate-related risks and opportunities.
	Principle 2	The board should ensure that its composition is sufficiently diverse in knowledge, skills, experience, and background.		
		The board should be able to effectively debate and take decisions informed by an awareness and understanding of climate-related threats and opportunities.		Describe management's role in assessing and managing climate-related risks and opportunities.
	Principle 3	The board should determine the most effective way to integrate climate considerations into its structure and committees.		
Risk Oversight and Management	Principle 4	The board should ensure that management assesses the short-, medium-, and long-term materiality of climate-related risks and opportunities for the credit union on an ongoing basis.	Pillar 3	Disclose how the organization identifies, assesses, and manages climate-related risks.
		The board should further ensure that the organization's actions and responses to climate are proportionate to the materiality of climate to the credit union.		Describe the organization's processes for identifying and assessing climate-related risks
	Principle 5	The board should ensure that climate is embedded into the management of risk and		Describe the organization's processes for managing climate-related risks.

		opportunities across the organization		Describe how processes for identifying, assessing, and managing climate-related risks are integrated into the organization's overall risk management.
Strategy	Principle 5	The board should ensure that climate systemically informs strategic investment planning and decision-making processes.	Pillar 2	Disclose the actual and potential impacts of climate-related risks and opportunities on the organization's businesses, strategy, and financial planning where such information is material.
				Describe the climate-related risks and opportunities the organization has identified over the short, medium, and long term.
				Describe the impact of climate-related risks and opportunities on the organization's businesses, strategy, and financial planning.
				Describe the resilience of the organization's strategy, taking into consideration different climate-related scenarios, including a 2°C or lower scenario.
Targets and Metrics	Principle 6	The board should ensure that executive incentives are aligned to promote the long-term prosperity of the credit union.	Pillar 4	Disclose the metrics and targets used to assess and manage relevant climate-related risks and opportunities where such information is material.
		The board may want to consider including climate-related targets and indicators in their executive incentive schemes, where appropriate.		Disclose the metrics used by the organization to assess climate-related risks and opportunities in line with its strategy and risk management process.
		In markets where it is commonplace to extend variable incentives to non-executive directors, a similar approach can be considered.		Disclose Scope 1, 2, and if appropriate, Scope 3 greenhouse gas (GHG) emissions, and the related risks.

				Describe the targets used by the organization to manage climate-related risks and opportunities and performance against targets.
Disclosure and Communication	Principle 7	The board should ensure that material climate-related risks, opportunities and strategic decisions are consistently and transparently disclosed to all stakeholders.		
		Such disclosures should be made in financial filings, such as annual reports and accounts, and be subject to the same disclosure governance as financial reporting.		
	Principle 8	The Board should maintain regular exchanges and dialogues with peers, policy-makers, investors, and other stakeholders to encourage the sharing of methodologies and to stay informed about the latest climate-relevant risks, regulatory requirements etc.		

Source: Adapted from World Economic Forum. How to Set Up Effective Climate Governance on Corporate Boards: Guiding Principles and Questions (2018) and Task Force on Climate-related Financial Disclosures. Final Report: Recommendations of the Task Force on Climate-related Financial Disclosures (TCFD, 2017).