Canada Climate Law Initiative
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À:
Me Philippe Lebel
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Dear Me Lebel,

Submission on Proposed Climate Risk Management Guideline

The Canada Climate Law Initiative (CCLI)[1] supports the Autorité des marchés financiers' (AMF) recognition of systemic financial risks in its draft Climate Risk Management Guideline (Ligne directrice sur la gestion des risques liés aux changements climatiques) (Guideline).[2] The Guideline is clear and accessible and its requirements will strengthen the resilience of the financial institutions that AMF regulates. The Guideline is an important acknowledgment that climate-related risks can significantly affect the safety and soundness of Québec-regulated financial institutions, in turn affecting the integrity of the Canadian financial system. Our view is that it is particularly important that AMF has included market conduct requirements. The CCLI strongly supports the Guideline and the analysis underpinning AMF's expectations.

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[1] The CCLI is a collaboration of the law faculties at the University of British Columbia and York University that analyses the legal obligations of corporate directors, pension fiduciaries, and asset managers to manage and report on climate-related financial risks and opportunities. It publishes guidance on effective climate governance, working closely with financial regulators, legal and accounting professionals, and policymakers in research support.
[2] AMF, Climate Risk Management Guideline (November 2023), Draft Climate Risk Management Guideline (lautorite.qc.ca) (hereafter AMF). AMF, Ligne directrice sur la gestion des risques liés aux changements climatiques, Projet de Ligne directrice sur la gestion des risques liés aux changements climatiques (lautorite.qc.ca).

However, the CCLI has three recommendations that will amplify AMF's protection of the financial system by offering clear guidance to Québec-regulated financial institutions on managing climate-related financial risks and building resilience in the transition to a decarbonized economy. These recommendations will enhance the Guideline and align it with recent developments internationally:

> **Recommendation 1:** Amend the requirement for a climate transition plan to require an objective of transition to net-zero greenhouse gas (GHG) emissions, which would strengthen the governance, risk management, and strategic planning of supervised financial institutions.
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> **Recommendation 2:** Amend the Guideline to expressly adopt the disclosure requirements issued by the International Financial Reporting Standards (IFRS) International Sustainability Standards Board (ISSB) in IFRS S2 Climate-related Disclosures (IFRS S2), including disclosure of Scope 1, 2, and 3 GHG emissions,[3] so that Québec-registered financial institutions keep pace with financial institutions globally in climate-related risk management and disclosure.
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> **Recommendation 3:** Amend the Guideline to make climate-related disclosures part of annual financial reporting, including requiring third-party assurance.

We discuss these three recommendations in the context of our comments on the proposed Guideline.

1. Governance and strategic planning

The CCLI fully supports the AMF's expectation that the board of directors should act competently and independently when addressing climate-related risks, and that the roles and responsibilities of directors and senior management must be clearly defined in respect of their obligations to manage climate-related risks.[4] It is essential that board members attain a level of knowledge and expertise required for effective oversight of climate risk management. It also makes sense to link the effectiveness of climate risk management to the remuneration policy for directors, senior management, and other key positions. The CCLI supports the Guideline's requirement to clearly define the roles and responsibilities related to climate risk assessment and management; integrate climate risks into the risk appetite framework and internal controls; and establish clear processes for identifying climate change issues and opportunities and conduct appropriate monitoring.

The draft Guideline states that the financial institution is to implement a transition plan to guide the institution's actions to manage physical risks and the risks associated with the transition towards a lower-carbon economy.[5] While we appreciate that this requirement mirrors the provisions of the Office of the Superintendent of Financial Services' (OFSI) Guideline B-15,[6] we submit that the objective should be to align financial institutions with the Québec government's and Canada's stated goals of reaching net-zero GHG emissions.[7] We recommend that the AMF require each financial institution to have a climate

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[3] International Financial Reporting Standards (IFRS) Foundation, International Sustainability Standards Board (ISSB), S2 Climate-related Disclosures (2023), ISSB-2023-A – Issued IFRS Standards (hereafter IFRS S2 Climate-related Disclosures).
[4] AMF, note 2 at 5.
[5] AMF, note 2 at 6.
[6] OSFI, Guideline B-15 Climate Risk Management, (2023), Guideline B-15 - Climate Risk Management (osfi-bsif.gc.ca).
[7] Gouvernement du Québec, *LE QUÉBEC CARBONEUTRE, Une contribution essentielle pour le future* (2021), Le Québec carboneutre. Une contribution essentielle pour le futur (quebec.ca); Gouvernement du Québec, Québec's commitments in respect of the climate | Gouvernement du Québec (quebec.ca).

transition plan aimed at achieving net-zero GHG emissions, understanding that such a plan should have short-, medium- and long-term objectives for decarbonization with the goal of the financial institution contributing to keeping the average rise in temperature to 1.5°C above pre-industrial levels, adopting sound methodologies to annually measure and report progress in meeting targets and objectives.

The CCLI agrees with the AMF that investors and other stakeholders need clear and transparent information in order to understand how climate-related risks may affect a financial institution's businesses, strategy, and financial planning over various time horizons and the impact of climate-related risks on its strategic and financial planning when setting its funding targets over a range of timeframes. We support the requirement that the institution's strategy should include a description of what it considers to be appropriate short-, medium- and long-term time horizons while considering the useful lives of its assets and infrastructure.[8] The financial institution should disclose a description of the specific issues that could have a material impact on its businesses in each time horizon.

The CCLI agrees that a financial institution should support its analysis of potential climate risk-related impacts and opportunities with quantitative information on its core businesses, strategy, and products and services. The institution should disclose the methodology and measurements used to assess its progress against the initial goals set out in the climate transition plan.[9] The institution should describe the climate-related risks it has identified and their impacts on its businesses, strategy, and financial planning using various time horizons. Financial institutions must address vulnerabilities in their business model and operations in order to build their resilience against climate-related risks. We agree with the AMF that regardless of their size, nature, complexity or risk profile, financial institutions should adopt forward-looking approaches that are holistic, integrated, and built on reliable empirical data and sound analyses.

2. Integrated risk management

The CCLI supports the requirement that the financial institution identify and integrate management of climate-related risks and their impact into its integrated risk management policies, establish objectives and targets to address issues associated with climate-related risks, and monitor progress in meeting those objectives.[10] The proposed Guideline enhances AMF's Integrated Risk Management Guideline.[11]

Given the systemic importance of Québec's financial institutions both regionally and nationally, the financial institution should establish strategies, policies, and procedures to properly identify and assess its climate risk-sensitive assets and liabilities and manage them in accordance with its integrated risk management framework.[12] The CCLI agrees with the Guideline that the financial institution should establish and regularly update a climate-related risk mitigation plan, including describing the actions it will take to mitigate those risks; the method used to establish a hierarchy of climate-related risks that may affect its activities; and its monitoring and reporting on internal targets to assess its progress in managing its physical and transition risk exposures, consistent with its strategic plan.[13] Here again, the Guideline would be strengthened if the overall objective of the risk mitigation plan is to assess it against a climate transition plan aimed at net-zero emissions, with interim targets/objectives set based on science and a deep understanding of integrated risk management.

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[8] AMF, note 2 at 6.
[9] AMF, note 2 at 6.
[10] AMF, note 2 at 5, 7.
[11] AMF, Integrated Risk Management Guideline, (2015).
[12] AMF, note 2 at 7.
[13] AMF, note 2 at 7.

We support the requirement to establish appropriate management methods and controls to identify, categorize, and assess the potential impacts of climate-related risks on the financial institution's activities and portfolio of exposures, including operational risk, credit risk, market risk, liquidity risk, and insurance risk, over appropriate time horizons and at differing levels and geographical regions of the financial institution.[14] Critically important is to identify and manage climate-related risks in relation to other material risks, using science-based data in informing risk management and decision-making.[15] OSFI reports that climate-related financial risk is a "transverse risk" across all four categories of business risk, financial resilience, operational resilience, and risk governance.[16]

The CCLI agrees that the data pertaining to physical risks and transition risks relevant to its business activities should be timely and accurate to enable sound risk management and appropriate decision-making; and that the financial institution should continuously monitor developments in integrated climate-related risk management, incorporating any relevant developments.[17]

We appreciate AMF's observation that climate-related risks are systemic and therefore must be managed based on the scope and frequency of the impacts they could have on the financial institution and that it is important for the institution to adopt strategies, policies, and procedures to enable the sound and prudent management of its climate-related risks.[18] The CCLI supports AMF's requirement that the financial institution monitor and report on relevant internal metrics, limits, and indicators to assess its progress in managing climate-related risks, which will aid both strategic planning and overall risk management.[19] This requirement aligns with the requirements of IFRS S2, and the Guideline could be enhanced by specifying that the financial institution apply the specific criteria set out in IFRS S2 in setting, monitoring, and reporting on internal metrics. As of January 2024, the IFRS reports that 24 regulators/standard setters have declared support for adopting IFRS S2, including 19 individual countries and three supranational bodies, covering regulatory authorities in 63 countries.[20] IFRS reports that in Canada, 33 organizations headquartered in Canada and 13 additional multinational organizations with subsidiaries headquartered in Canada have endorsed IFRS S2.

Further, the CCLI suggests that AMF should consider adopting OSFI's approach in its new Supervisory Framework to federally-regulated financial institutions, effective April 2024, to consider climate risk a "transverse risk" that crosses all areas of financial risk.[21] The framework is aimed at capturing the impact of systemic risks by introducing four risk categories – business risk, financial resilience, operational resilience and risk governance. OSFI has observed:

> Climate risk is an important area of focus and we've developed the new framework to support this work. Climate risk considerations can impact all of the new rating categories. We therefore show climate as a transverse risk. Significant climate-rated risks will be reflected in our rating of

[14] AMF, note 2 at 7.
[15] AMF, note 2 at 7.
[16] OSFI Overall Risk Rating (ORR), effective April 2024.
[17] AMF, note 2 at 7.
[18] AMF, note 2 at 7.
[19] AMF, note 2 at 8.
[20] IFRS, https://www.ifrs.org/ifrs-sustainability-disclosure-standards-around-the-world/cop28-declaration-of-support/further-statements-of-support/ .
[21] Ben Gully, Deputy Superintendent, OSFI, Supervisory Framework Renewal – Briefing – Fall 2023, OSFI, (2023), Ben Gully – Supervisory Framework Renewal – Briefing – Fall 2023 (osfi-bsif.gc.ca). See also OSFI Notice, OSFI's New Supervisory Framework, (4 October 2023), OSFI's New Supervisory Framework (osfi-bsif.gc.ca).

the relevant category. When we communicate with institutions it will be clear when climate risk is an issue.[22]

3. *Expectations regarding climate scenarios and stress testing*

Investors and other stakeholders need to understand how a financial institution measures and monitors its climate-related risks, including access to information on the targets and metrics used by the financial institution that will allow investors to better assess the institution's potential risk-adjusted returns, ability to meet its financial obligations, general exposure to climate-related risks, and progress in managing or adapting to climate change.[23] The CCLI supports the AMF's expectation that the financial institution will carry out climate scenario analysis over different time horizons to assess the impact of climate risk factors on its risk profile, business strategy, and business model. There cannot be an effective business strategy and risk management plan without the financial institution considering at least several plausible future situations and what the potential impacts could be; assessing the impact of physical and transition risks on the financial institution's strategy and risk profile and the resiliency of its business model; identifying relevant climate-related risk factors, estimating exposures and potential losses; and identifying data quality, assumption, and methodology limitations.[24] The financial institution should include regular climate scenario analyses in its stress testing to guide its strategic planning, risk management, and financial planning process.[25]

That said, the CCLI would like to draw your attention to actuarial and other reports out of the United Kingdom (UK), in which actuaries are expressing concern that some of the widely-embraced scenarios globally under-report risk and climate-related financial impacts over the long term.[26] For example, the Institute and Faculty of Actuaries reports that many climate-scenario models in financial services are significantly underestimating climate risk and that carbon budgets may be smaller than anticipated and risks may develop more quickly.[27] It cautions that regulatory scenarios introduce consistency but also the risk of "group think", with scenario analysis outcomes being taken too literally and out of context.[28] Similarly, the UK Pensions Regulator has expressed concerns over the integrity of some climate scenarios that appear to seriously underestimate the financial risk from climate change and are at odds with the established earth and climate science.[29]

The Institute and Faculty of Actuaries observes that:

> Time is too short to wait for models that are perfect. Development is needed, including looking beyond the commonly used general equilibrium economic models that underpin many approaches today, to find solutions that can realistically capture risk drivers and the interaction between policy, technology, the real economy and markets. A practical fix is to use qualitative scenarios that reflect the emerging reality of climate change to complement models, as well as out-of-model adjustments and margins to reflect uncertainty.[30]

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[22] Ben Gully, Deputy Superintendent, OSFI, Supervisory Framework Renewal – Briefing – Fall 2023, note 21.
[23] AMF, note 2 at 8.
[24] AMF, note 2 at 8.
[25] AMF, note 2 at 8.
[26] See, for example, Institute and Faculty of Actuaries, *Emperor's New Climate Scenarios – a warning for financial services*, (July 2023); The Pensions Regulator, United Kingdom, "How trustees can help make climate scenario analysis 'decision-useful (29 August 2023), "How trustees can help make climate scenario analysis 'decision-useful.
[27] Institute and Faculty of Actuaries, note 26 at 6.
[28] Institute and Faculty of Actuaries, note 26 at 6.
[29] The Pensions Regulator, United Kingdom, note 26.
[30] Institute and Faculty of Actuaries, note 26 at 7.

The UK Pensions Regulator concludes that despite the limitations, climate scenario analysis has provided useful initial training and insights, but it has tended to downplay the full scope of the risks and uncertainties.[31] It recommends that fiduciaries regularly review the climate-related capabilities of service providers and consider the need for additional specialist input; need to be able to understand the narratives and assumptions underlying their climate scenarios and the limitations of those scenarios so that they can broadly rationalize the outputs from those scenarios; and need to consider with advisers the use of stress testing and tail risk analysis to complement their climate scenario input to investment strategy decision-making.[32] It reports that the challenge is to ensure the models used and the scenario analysis addresses a fuller range of real-world risks and uncertainties.

4. Capital and liquidity adequacy

The CCLI supports AMF's requirement that the financial institution maintain sufficient capital and liquidity to cover its climate risk exposures. We agree that the financial institution should incorporate climate-related risks into its internal capital adequacy assessment process (ICAAP) or its own risk and solvency assessment (ORSA) process. The Guideline states that the institution should consider the capital adequacy requirements applicable to it in severe, yet plausible, climate scenarios, and the climate risks that could materialize beyond the standard financial planning time horizon; and should consider the impact of climate-related drivers on its liquidity risk profile and integrate a range of institution-specific and market-wide severe, yet plausible, climate stress events when assessing the adequacy of its capital and liquidity buffers. We concur with the observation that unlike other models and approaches, such as longevity and asset-liability models, the range of uncertainty in climate change model outputs is extremely large.[33] Here again, some of the research in the UK might assist Canadian financial institutions going forward.

5. Fair treatment of clients

The CCLI applauds the AMF for its inclusion of market conduct rules to the guidance on managing climate-related financial risks.[34] Under the umbrella of "fair treatment of clients", AMF's recommendations are clear and concise, highlighting the importance of clients being made aware of the increased frequency and consequences of climate-related physical and transition risks.[35] We agree that the financial institution should be proactive with intermediaries involved in offering the institution's products, providing information at all stages of a product's life cycle, particularly with respect to clients' needs and interests and with respect to the financial institution's or intermediary's disclosures sent to clients.[36]

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[31] The Pensions Regulator, United Kingdom, note 26.

[32] The Pensions Regulator, United Kingdom, note 26. A report titled Global Tipping Points led by University of Exeter's Global Systems Institute with the support of more than 200 researchers from over 90 organizations in 26 countries reported in 2023 that "harmful tipping points in the natural world pose some of the gravest threats faced by humanity. Their triggering will severely damage our planet's life-support systems and threaten the stability of our societies." It identifies crucial knowledge gaps in tipping system interactions that should be resolved in order to improve risk assessments of cascading transitions under future climate change scenarios, University of Exeter Global Systems Institute, The Global Tipping Points Report and Global Tipping Points | Home (global-tipping-points.org).

[33] The Pensions Regulator, United Kingdom, note 26.

[34] Building on AMF's, *Sound Commercial Practices Guideline*, (November 2022).

[35] AMF, note 2 at 9.

[36] AMF, note 2 at 9.

The AMF expects the financial institution to take changes in climate-related risks into account when designing, marketing, and advertising new products or altering existing ones.[37] The CCLI agrees that the financial institution should ensure that the documentation related to a product is available and adapted to the level of financial literacy of the target client group; and the AMF's caution that a product should not exploit potential behavioural biases exhibited by clients in order to artificially create demand for that product.[38] We agree that the underwriting process should be regularly reviewed and updated in terms of climate-related risk factors and criteria used, to ensure that a product takes into account the specific needs of certain groups of individuals, for example, clients residing in areas where the impacts of climate change are greater in relation to the majority of clients.[39]

The draft Guideline notes that when a financial institution plans to alter a product or remove it from the market, the institution should determine whether doing so will cause foreseeable harm to a specific client group and take appropriate action to mitigate such harm.[40] This guidance is particularly important for the availability of insurance in areas of high risk of severe climate impacts. The CCLI supports the Guideline's requirement that the financial institution should take the necessary steps to ensure that any product advertising is accurate, clear, and not misleading in relation to climate-related risks, including extreme weather events and the needs of the target client groups.[41] Such a requirement will help ensure fair treatment of clients. It will also help financial institutions avoid the risk of regulatory sanction in respect of how financial products and services are marketed. We note that the proposed amendments to the federal *Competition Act* are explicitly aimed at regulatory enforcement of greenwashing in the market.[42]

The AMF expects disclosure to clients before, when, and after a product offered by the financial institution is purchased to address climate-related risks.[43] It notes that whether products are offered through intermediaries or not, the financial institution should ensure that clients are aware of their actual risk environment and understand the features of the products offered.[44] The Guideline states that:

> The complexity of certain financial products can interfere with clients' ability to clearly understand them and make them think that the product covers them against climate-related risks or extreme weather events. Clients should therefore not be encouraged to acquire a product if they don't understand every aspect of it from the viewpoint of climate-related risks or extreme weather events.[45]

We agree. The financial institution should assist clients to understand changes affecting coverage under an insurance product to allow them to determine whether the product offered aligns with their climate risk tolerance and needs. The Guideline also requires that disclosure of climate-related risks to clients

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[37] AMF, note 2 at 9.
[38] AMF, note 2 at 10.
[39] AMF, note 2 at 10.
[40] AMF, note 2 at 10.
[41] AMF, note 2 at 11.
[42] Bill C-59 FES Implementation Act, Government Bill (House of Commons) C-59 (44-1) - First Reading - Fall Economic Statement Implementation Act, 2023 - Parliament of Canada (first reading 30 November 2023). The Bill states that greenwashing will include where a company "makes a representation to the public in the form of a statement, warranty or guarantee of a product's benefits for protecting the environment or mitigating the environmental and ecological effects of climate change that is not based on an adequate and proper test, the proof of which lies on the person making the representation"; section 236 (1) of Bill 59 amending section 74.01(1) of the *Competition Act.*
[43] AMF, note 2 at 11.
[44] AMF, note 2 at 11.
[45] AMF, note 2 at 11.

after a product is purchased should be timely and enable them to determine whether the product they hold is still suited to their needs and interests,[46] or requires adjustment or additional coverage.

6. Climate-related financial risk disclosures

The CCLI fully supports the Guideline's five principles for effective disclosure of climate risks, specifically:

1. The financial institution should provide relevant, comprehensive information specific to the impact of climate-related risks and opportunities on such things as its markets, businesses, strategy and financial statements. The disclosure should be presented in sufficient detail to enable stakeholders to assess the institution's exposure and approach to addressing climate-related risks. The financial institution should avoid providing generic information or information that does not add to stakeholders' general understanding of climate-related risks, while explaining why a specific risk or issue is not material for the institution.

2. The financial institution should provide information that is clear, balanced and understandable for the general public and that is sufficiently granular to inform more sophisticated stakeholders. Moreover, the financial institution should show an appropriate balance between qualitative and quantitative information and use text, numbers, and graphical presentations in its disclosures as appropriate.

3. The financial institution should maintain a neutral stance in its disclosures, disclosing, in particular, reliable, verifiable and objective information. The information and the financial institution's disclosures should be recorded to ensure they are high quality.

4. The financial institution should disclose information appropriate for its size, nature and complexity. The volume and level of detail of disclosure must be proportional to its size compared to other participants in its market, but also to the complexity of its operations, its systemic importance and the number of geographic locations it has.

5. The financial institution should disclose consistently between the various publications to enable stakeholders to monitor and understand the actions of the financial institution and the impact of climate-related risks on it.[47]

More specifically, the AMF expects the financial institution to publicly disclose its main elements of governance and integrated risk management, and its climate scenarios and climate-related stress testing, in accordance with the five principles for disclosure.[48] Climate-related financial disclosures contribute to public confidence in the financial institution and the Québec financial system.

However, the CCLI is concerned that AMF has left it to the financial institution to determine the type of report used to disclose the information. While it suggests that shareholders should receive the information, it does not require the disclosure to be linked or timed with annual financial disclosures, other than to require that the financial institution should make its climate-related financial disclosures

[46] AMF, note 2 at 11.
[47] AMF, note 2 at 12.
[48] AMF, note 2 at 12.

publicly available, including on its website, no later than 180 days after fiscal year-end.[49] Although the timing is linked to a period after the fiscal year-end, the framing of this requirement does not require financial institutions to report as part of financial reporting and does not require third-party assurance, two requirements that investors view as essential to disclosure. The proposed Guideline should be clearer that disclosure for climate-related risk management and transition plans must be embedded in financial reporting and subject to officer certification and independent third-party assurance.

The CCLI's third recommendation, to amend the Guideline to make climate-related disclosures part of annual financial reporting, including requiring third-party assurance, is more aligned with both IFRS S2 and financial services regulatory developments internationally. In particular, IFRS S2 specifies that an entity shall disclose information that enables users of financial reports to understand both the current and anticipated effects of climate-related risks and opportunities on the entity's financial position, financial performance, and cash flows for the reporting period and over the short, medium and long term, taking into consideration how climate-related risks and opportunities are included in the entity's financial planning.[50] It clearly links disclosure of climate-related risks to the institution's financial position, financial performance, and cash flows. At the same time, it allows for proportionality – IFRS S2 specifies that in preparing disclosures about the anticipated financial effects, an entity shall use all reasonable and supportable information that is available to the entity at the reporting date without undue cost or effort and use an approach that is commensurate with the skills, capabilities, and resources that are available to the entity for preparing those disclosures.[51] An entity need not provide quantitative information about the current or anticipated financial effects of a climate-related risk or opportunity if it determines that those effects are not separately identifiable or the level of measurement uncertainty involved in estimating those effects is so high that the resulting quantitative information would not be useful.[52]

IFRS S2 further specifies that an entity need not provide quantitative information about the anticipated financial effects if the entity does not have the skills, capabilities or resources to provide that quantitative information, but it must explain why it has not provided quantitative information; provide qualitative information about those financial effects, including identifying line items, totals, and subtotals within the related financial statements affected or likely to be affected; and provide quantitative information about the combined financial effects of that climate-related risk or opportunity with other climate-related risks or opportunities and other factors unless the entity determines that quantitative information about the combined financial effects would not be useful.[53] These IFRS S2 provisions embed disclosure in financial reporting, but then provide exceptions based on only requiring reasonable and supportable information that is available at the reporting date without undue cost or effort and allows an institution to disclose using an approach that is commensurate with the skills, capabilities, and resources that are available to it for preparing those disclosures.[54] These requirements are more focused and better protect the integrity of the financial system than the proposed AMF Guideline. Moreover, an amendment to align with IFRS S2 will create greater comparability between Québec-regulated financial institutions and their comparators globally.

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[49] AMF, note 2 at 12-13.
[50] IFRS S2, note 3 at para 15.
[51] IFRS S2, note 3 at para 18.
[52] IFRS S2, note 3 at para 19.
[53] IFRS S2, note 3 at paras 20, 21.
[54] IFRS S2, note 3 at para 18.

The CCLI supports the AMF requirement that the financial institution disclose its GHG emissions and its targets used to manage climate-related risks and assess its performance against its targets.[55] We agree that the financial institution should disclose the information related to the calculation of its absolute Scope 1 and 2 GHG emissions by complying, to the extent possible, with the standards of the GHG Protocol.[56] Disclosure in line with the GHG Protocol standards[57] allows for better aggregation and comparability of GHG emissions across financial institutions. We note that AMF states that the financial institution should indicate the proportion of its activities that are subject to Scope 3 reporting and undertake work on how to calculate absolute Scope 3 GHG emissions[58] and establish a timeline to perform the calculation. The CCLI is concerned that there is no timeline for including Scope 3 emissions and the means it intends to take to enhance its disclosure based on its planning. Here again, we recommend aligning AMF's Guideline with IFRS S2 disclosure requirements to include Scope 1, 2, and 3 emissions.[59] IFRS S2 embeds a proportionality caveat in that in preparing emissions disclosure requirements "an entity shall use all reasonable and supportable information that is available to the entity at the reporting date without undue cost or effort".[60] In our view, it is important to require identification and measurement of Scope 3 emissions in both operations and financed transactions if the financial institution is to meaningfully measure and disclose the full extent of its climate-related risks and opportunities.

In summary, the CCLI supports the proposed Guideline and encourages the AMF to bring it into force as soon as possible. Our three recommendations: to amend the Guideline to require the climate transition plan to have the objective of transition to net-zero emissions in order to strengthen governance, risk management, and strategic planning of supervised financial institutions; to amend the Guideline to expressly adopt the IFRS S2 climate-related disclosure requirements, including disclosure of Scope 1, 2, and 3 GHG emissions; and to amend the Guideline to make climate-related disclosures part of annual financial reporting, including requiring third-party assurance, would align the AMF's requirements with developments internationally and would best protect the safety and soundness of our financial system.

The CCLI would be pleased to discuss any of these issues with you and to offer any research or other assistance as you move to finalize the Guideline.

Sincerely,

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c. Patrick Déry, Surintendant des institutions financières, AMF
c. Julien Reid, Directeur principal de l'encadrement et de la résolution, AMF

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[55] AMF, note 2 at 13.
[56] AMF, note 2 at 13, citing World Resources Institute, *Greenhouse Gas Protocol: A Corporate Accounting and Reporting Standard*, revised edition, 2015.
[57] *Greenhouse Gas Protocol: A Corporate Accounting and Reporting Standard*, as revised, ghg-protocol-revised.pdf (ghgprotocol.org).
[58] AMF, note 2 at 13, noting that if the calculation standard used by the financial institution for Scope 3 GHG emissions is not the Corporate Value Chain (Scope 3) Accounting and Reporting Standard, the institution should disclose how the standard used is comparable to that standard.
[59] IFRS S2 Climate-related Disclosures, note 3 at para 29.
[60] FRS S2 Climate-related Disclosures, note 3 at para 30.