Canada Climate Law Initiative | L'Initiative canadienne de droit climatique

From:
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To:
Mr Blair Morrison
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and to:
Mr Stanley Hamilton
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Dear Mr Morrison and Mr Hamilton,

Re: Policy Submission to British Columbia Financial Services Authority on Strengthening Climate Resilience in the Financial Services Sector

The Canada Climate Law Initiative (CCLI) submits that three key policy recommendations have the potential to considerably enhance the British Columbia (BC) government's oversight of financial services. Policies to help BC residents become financially resilient to the impacts of climate change are critically important. BC faces growing, significant exposure to climate-related impacts, including increasing frequency and severity of flooding, heat waves, wildfires, atmospheric rivers, and winter storms.[1] The BC Financial Services Authority (BCFSA) has recently demonstrated leadership by issuing the *Natural Catastrophes and Climate-Related Risks, Managing Uncertainty and Building Resilience in the BC Financial Services Sector* report.[2] You now have a unique opportunity to move quickly to build on that leadership by

[1] Intergovernmental Panel on Climate Change (IPCC), *Climate Change 2023: Synthesis Report* (20 March 2023), IPCC_AR6_SYR_SPM.pdf; IPCC, *Sixth Assessment Report from the Intergovernmental Panel on Climate Change* (2021), IPCC_AR6_WGI_SPM_final.pdf; UNEP, *UNEP Emissions Gap Report* 2023 (20 November 2023), EGR2023.pdf (unep.org).

[2] British Columbia Financial Services Authority (BCFSA), *Natural Catastrophes and Climate-Related Risks, Managing Uncertainty and Building Resilience in the BC Financial Services Sector* 2023 *Discussion Paper* (July 2023), download (bcfsa.ca) (hereafter *Natural Catastrophes and Climate-Related Risks).*

issuing guidance that will protect the safety and soundness of our financial system and attract new capital to support the transition.

BCFSA's mandate includes safeguarding the interests of depositors, policyholders, beneficiaries, pension plan members, and other consumers of financial services.[3] BCFSA supervises provincially-regulated credit unions, pension plans, insurers, and trust companies, determining whether they are in sound financial condition and are complying with their governing laws and supervisory standards. It uses a risk-based supervisory framework to identify imprudent or unsafe business practices.[4] The BCFSA's regulatory mandate includes oversight of 34 credit unions with more than $78 billion in assets; 635 pension plans with $212.2 billion in assets protecting more than 1.2 million members; and more than 230 insurance and trust companies.[5] Given the importance of these financial institutions to both the provincial and national economies, the BC government has the potential to be a leading presence in encouraging investment in projects, activities, and sectors that will support the transition to a net-zero carbon economy. CCLI's recommendations, if implemented, will strengthen regulatory oversight and contribute to long-term economic competitiveness in the province, while showcasing a commitment to proactive climate action in support of industry actions already underway.

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 legal and accounting professionals and policymakers.[6] CCLI believes our recommendations will effectively amplify BC's protection of the safety and soundness of the financial system by offering guidance to BC-regulated financial institutions on managing climate-related financial risks and building resilience in the transition to a decarbonized economy.

Our recommendations:

1. Adopt a guideline on climate financial risk management for BC-regulated financial institutions aligned with the federal Office of the Superintendent of Financial Services (OSFI) Guideline B-15 Climate Risk Management,[7] extending requirements under the guideline to BC-regulated pension funds in addition to other financial institutions.

2. Endorse the Sustainable Finance Action Council's (SFAC) Green and Transition Finance Roadmap and co-operate as a member of the proposed Taxonomy Council's Indigenous, Provincial, and

[3] *Natural Catastrophes and Climate-Related Risks,* note 2 at 5.
[4] BCFSA, *Supervisory Framework For Provincially Regulated Financial Institutions* (September 2021), at 8-9, https://www.bcfsa.ca/media/42/download.
[5] BC Financial Services Authority 2022/23 Annual Service Plan Report (August 2023) at 7, BC Financial Services Authority 2022/23 Annual Service Plan Report (bcfsa.ca); as well as over 6,500 mortgage brokers and brokerages; and 37,000 real estate licensees, brokerages, branches, and personal real estate corporations. BCFSA was established by the *Financial Services Authority Act*, 2019. See also British Columbia Financial Services Authority, *Report on Pension Plans Registered in British Columbia* (October 2023), at 6, https://www.bcfsa.ca/media/3498/download.
[6] See for example, in financial services, Helen Tooze, *Canadian Credit Unions and Effective Climate Governance Cooperating for a Sustainable Future* (CCLI and Canadian Credit Union Association, 2023); Janis Sarra and Norie Campbell, *Banking on a Net-Zero Future: Effective Climate Governance for Canadian Banks* (CCLI 2022); Janis Sarra, *Life, Health, Property, Casualty: Canadian Insurance Company Directors and Effective Climate Governance* (CCLI 2021); Janis Sarra, Roopa Davé, Meghan Harris-Ngae, and Ravipal Bains, *Audit Committees and Effective Climate Governance, A Guide for Boards of Directors* (CCLI, 2020).
[7] Office of the Superintendent of Financial Services (OSFI), "Guideline B-15 Climate Risk Management" (March 2023), Climate Risk Management (osfi-bsif.gc.ca).

Territorial Government Stakeholder Advisory Group in advising the Taxonomy Council on developing the Green and Transition Finance Taxonomy.

3. Encourage the Minister of Finance to amend section 51 of the Pension Benefits Standards Regulation[8] pursuant to the BC *Pension Benefits Standards Act*[9] to require that the pension plan administrator's written statement of investment policies and procedures (SIPP) includes a statement on how its policies and procedures address climate-related financial risks, including the plan's climate resilience (mitigation and adaptation) and how it weighs the risks and benefits in decisions with respect to its portfolio of investments and loans in light of the impending transition to a net-zero emissions economy.

CCLI's detailed rationale for these recommendations is discussed below.

Recommendation 1: Adopt a guideline on climate financial risk management for BC-regulated financial institutions aligned with the federal Office of the Superintendent of Financial Services (OSFI) Guideline B-15 Climate Risk Management, extending requirements under the guideline to BC-regulated pension funds in addition to other financial institutions.

BC has demonstrated leadership among provincial regulators in announcing that it will issue guidance on climate-related financial risk management. The BCFSA, as part of its oversight of BC-regulated financial institutions, protects the safety and soundness of the financial sector and the public while allowing regulated entities to innovate and grow.[10] BCFSA has stated that it will focus on the key risks including credit, market, and operational risks such as climate change.[11]

BCFSA has recognized the need to ensure that the entities it regulates exercise prudent risk management, and that they help ensure consumers are protected and treated fairly, noting that regulatory guidance can ensure a consistent and comprehensive approach across the financial services sector.[12] The CCLI supports BCFSA's proposed integrated and proportionate approach that will encourage financial services providers to consider Natural Catastrophes and Climate-Related Risks (NCCR) holistically, considering the impacts on both businesses and the consumers they serve.[13] CCLI supports BCFSA's proposed two-pillar approach: ensuring financial services providers identify, measure, and manage NCCR, commensurate with the level of risk to both their business and to consumers; and ensuring financial services providers disclose sufficient information to consumers so that they can understand the risks to products and services they are being offered and/or are receiving, and the strategies being employed to manage such risks.[14] With respect to climate-related risks, the NCCR-specific guidance for financial institutions and pensions plan administrators should focus on climate resilience and the transition to net-zero emissions as part of their fiduciary responsibilities.[15]

The CCLI applauds the BCFSA for its "whole of society" approach and commitment to working with other

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[8] Pension Benefits Standards Regulation BC Reg 71/2015, OC 219/2015, as amended, Pension Benefits Standards Regulation (gov.bc.ca).
[9] *Pension Benefits Standards Act*, SBC 2012, c 30, as amended, Pension Benefits Standards Act (gov.bc.ca).
[10] BC Financial Services Authority 2022/23 Annual Service Plan Report, note 5 at 9.
[11] BCFSA, "2023/24 – 2025/26 Service Plan" (February 2023) at 10, BC Financial Services Authority ("BCFSA") 2023/24 - 2025/26 Service Plan (gov.bc.ca).
[12] *Natural Catastrophes and Climate-Related Risks,* note 2 at 3.
[13] *Natural Catastrophes and Climate-Related Risks,* note 2 at 3.
[14] *Natural Catastrophes and Climate-Related Risks,* note 2 at 4, 5.
[15] *Natural Catastrophes and Climate-Related Risks,* note 2 at 4.

stakeholders to address the causes of climate change, mitigate risk drivers, and build resilience, while meeting its mandate to supervise the financial services sector to identify material risks and to intervene as necessary to ensure the safety and soundness of the financial system and protection of consumers.[16] BCFSA's risk-based approach to identify business practices that are imprudent, unsafe, or unfair, and its early intervention framework allows it to identify issues or problems early on and to take corrective action on a timely basis.[17] BCFSA's analysis indicates that NCCR are material, and potentially systemic to the safety and soundness of BC's financial services sector and BCFSA must act to ensure that the entities it regulates exercise prudent risk management.

Physical risks include the increasing frequency and severity of climate-related physical events, such as flooding, heat waves, wildfires, wind, and winter storms; the indirect effects of climate change such as biodiversity and ecosystem losses and longer-term sea level rise and ocean acidification risks.[18] In 2021 alone, the June heat wave, summer wildfires, and the November floods in BC resulted in $10.6 to $17.1 billion total damage.[19] BCFSA has also recognized the transition risks associated with transitioning to a lower-carbon economy, such government policies to reduce emissions, technological advancements, and changes in investor or consumer sentiment.[20]

Importantly, the BCFSA has recognized that NCCR, including climate change, may amplify conventional prudential risks, including credit, market, operational, reputational, liquidity, strategic, and insurance risks; in turn creating risks that consumers could be treated unfairly, primarily through a lack of transparency, mis-selling, and poor product suitability/availability.[21] BCFSA has acknowledged that provincial and federal governments' legislative commitments to achieve net-zero greenhouse gas (GHG) emissions by 2050 and the transition to a lower-emissions economy could impact financial institutions and pension plans with material exposures to carbon-intensive assets.[22] Guidance is needed to ensure financial institutions appropriately capture risks and ensure a consistent and comprehensive approach across the financial services sector.[23]

CCLI supports BCFSA's objective of increasing the resilience of financial services providers, specifically, their capacity to withstand or recover quickly from difficulties by ensuring the operational resilience to respond swiftly to climate impacts; ensuring that financial services providers can respond to plausible but severe climate scenarios.[24] Consumers' resilience will be enhanced by access to information and financial products and services that provide financial protection, making consumers' best interests the priority and an integral part of what financial services providers consider in setting business priorities.[25]

The CCLI supports BCFSA's stated intention to develop an NCCR Management Guideline that would establish expectations for financial institutions to identify, measure, and manage NCCR for both their business and consumers, including integrating NCCR into governance, strategy, and risk management

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[16] *Natural Catastrophes and Climate-Related Risks,* note 2 at 5.
[17] *Natural Catastrophes and Climate-Related Risks,* note 2 at 7.
[18] *Natural Catastrophes and Climate-Related Risks,* note 2 at 9.
[19] M Lee and B Parfitt, Canadian Centre for Policy Alternatives, *A Climate Reckoning The economic costs of BC's extreme weather in 2021* (November 2022), https://policyalternatives.ca/sites/default/files/uploads/publications/BC%20Office/2022/11/ccpa-bc_Climate-Reckoning_web.pdf; British Columbia Coroners Service, *Extreme Heat and Human Mortality: A Review of Heat-Related Deaths in B.C. in Summer 2021* (7 June 2022), Extreme Heat Death Review Panel Report (gov.bc.ca)
[20] *Natural Catastrophes and Climate-Related Risks,* note 2 at 9.
[21] *Natural Catastrophes and Climate-Related Risks,* note 2 at 13.
[22] *Natural Catastrophes and Climate-Related Risks,* note 2 at 15.
[23] *Natural Catastrophes and Climate-Related Risks,* note 2 at 17.
[24] *Natural Catastrophes and Climate-Related Risks,* note 2 at 19.
[25] *Natural Catastrophes and Climate-Related Risks,* note 2 at 19, 20.

processes and frameworks.[26] BCFSA is considering recent guidance developed by OSFI for financial institutions and the Canadian Association of Pension Supervisory Authorities (CAPSA) for pensions plan administrators.[27] BCFSA is proposing to develop a guideline that will require BC-incorporated insurance companies and credit unions to identify, measure, and manage NCCR in a way that is proportionate to the risk posed to their business and to consumers.[28] The proposed guideline should align as much as possible with OSFI's B-15 Guideline on Climate Risk Management, understanding that there may need to be some modifications based on the unique characteristics of BC's regulated financial institutions.[29] However, our view is that the CAPSA guidance is too weak to meaningfully support BCFSA's substantive objectives in managing climate-related financial risk.[30] The scope of OSFI's B-15 should be extended to pension funds.

The CCLI appreciates that many BCFSA-regulated entities are small and many are not publicly traded and that there may be initial challenges acquiring climate-risk data that is high-quality, reliable, and comparable.[31] The CCLI also supports BCFSA's announced plans to update the Capital Adequacy Return (CAR) for credit unions and develop a Capital Management Guideline and to ensure financial institutions take NCCR into consideration when understanding their risks and assessing how much capital they need to support business activities.[32]

BCFSA has developed a financial model to estimate the impact of physical risks to lending portfolios of BC credit unions, including scenario analysis, an important tool in supervision of regulated entities.[33] The CCLI applauds the BCFSA for updating loan data reporting requirements for credit unions to include NCCR data and its goal of aligning data with national and international standards regarding reporting, transparency, and best practice.[34] We appreciate that BCFSA will consider how best to adopt and/or adapt the climate scenarios developed by OSFI, but urge it to achieve as much consistency as possible in order to allow investors and consumers to compare information across entities and over time.

We agree that increased transparency around governance, corporate strategy, and risk management is essential so that consumers and investors know the exposure of financial institutions and pension plans to NCCR and strategies they employ to address risks.[35] We applaud BCFSA's statement that external assurance is important to help ensure financial institutions' and pension plans' disclosures related to sustainability are accurate, not misleading, and aligned with emerging best practices and standards.[36] Now that BCFSA has completed consultation on its NCCR report, it is critically important to act swiftly to issue the guideline.

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[26] *Natural Catastrophes and Climate-Related Risks,* note 2 at 21.
[27] *Natural Catastrophes and Climate-Related Risks,* note 2 at 21.
[28] *Natural Catastrophes and Climate-Related Risks,* note 2 at 7, 30, BCFSA has included earthquakes in its definition of NCCR, meaning insurance companies would also need to consider their earthquake exposure. It notes that given that BCFSA already expects BC-incorporated insurers to comply with OSFI's B-9 Earthquake Exposure Sound Practices Guideline, BCFSA's approach is not anticipated to have a significant impact on how insurers manage seismic risk.
[29] *Natural Catastrophes and Climate-Related Risks,* note 2 at 21.
[30] See CCLI submission on CAPSA Guideline for Pension Plan Risk Management for Plan Administrators, September 2023, CCLI-Submission-to-CAPSA-29-September-2023.pdf (ubc.ca) and CCLI submission on CAPSA Guideline Environmental, Social and Governance Considerations in Pension Plan Management 6-September-2022-Submission-to-CAPSA-from-the-Canada-Climate-Law-Initiative.pdf (ubc.ca).
[31] *Natural Catastrophes and Climate-Related Risks,* note 2 at 21.
[32] BCFSA's expectations are outlined in the Internal Capital Adequacy Assessment Process (ICAAP) Guideline for credit unions and Own Risk and Solvency Assessment (ORSA) Guideline for Insurers; *Natural Catastrophes and Climate-Related Risks,* note 2 at 24.
[33] *Natural Catastrophes and Climate-Related Risks,* note 2 at 24.
[34] *Natural Catastrophes and Climate-Related Risks,* note 2 at 24.
[35] *Natural Catastrophes and Climate-Related Risks,* note 2 at 26.
[36] *Natural Catastrophes and Climate-Related Risks,* note 2 at 26.

The CCLI submits that BC's adoption of a guideline on climate risk management would recognize that building resilience against climate-related risks requires financial institutions to address vulnerabilities in their business model, their overall operations, and their balance sheet using forward-looking approaches that are holistic, integrated, and built on reliable empirical data and sound analyses.[37] It does not preclude investments in energy-intensive trade exposed sectors, but informs and unlocks investments through a transparent and evidence-based lens with the understanding that investments in transition projects are critical and globally relevant to a net-zero Paris Agreement-aligned future. Guideline B-15 recognizes that climate risks and vulnerabilities will vary with a financial institution's size, nature, scope, complexity of its operations, and risk profile.[38] We submit that BC should adopt the five principles in Guideline B-15 to align the safety and soundness of the financial services sector. Specifically, the BC guideline should adopt:

> Principle 1: The financial institution should have the appropriate governance and accountability structure in place to manage climate-related risks; should disclose the board of directors' oversight of climate-related risks and opportunities and management's responsibility for assessing and managing climate-related risks and opportunities; and consider whether senior management compensation policies and practices should incorporate climate-related risk considerations.
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> Principle 2: The financial institution should implement a "climate transition plan" in line with incorporating climate risk management in its business plan and strategy to guide its actions to manage increasing physical risks from climate change and the risks associated with its transition towards a low-GHG economy, assessing achievability of its plan under different climate-related scenarios and measuring progress through internal metrics and targets.
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> Principle 3: The financial institution should manage and mitigate climate-related risks in accordance with its Risk Appetite Framework and Enterprise Risk Management framework, monitoring and reporting relevant internal metrics, limits, and indicators to assess the effectiveness of its climate risk management.
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> Principle 4: The financial institution should use climate scenario analysis to assess the impact of climate-related risks on its risk profile, business strategy, and business model.
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> Principle 5: The financial institution should maintain sufficient capital and liquidity buffers for its climate-related risks, incorporating climate-related risks into its Internal Capital Adequacy Assessment Process (ICAAP) or Own Risk and Solvency Assessment (ORSA) process.[39]

The CCLI submits that BCFSA should adopt OSFI's three expected outcomes, specifically, that BC-regulated financial institutions and pension funds understand and mitigate against potential impacts of climate-related risks to their business model and strategy; should have appropriate governance and risk management practices to manage identified climate-related risks; and that they remain financially resilient through severe, yet plausible, climate risk scenarios, and operationally resilient through disruption due to climate-related disasters.[40] The guideline should be clear that disclosure of climate-related risk management and transition plans must be embedded in financial reporting and subject to officer certification and independent third-party assurance. The financial institution should report information that is clearly defined, collected, and recorded; disclosing clear, balanced, and

[37] Guideline B-15, note 7 at 1.
[38] Guideline B-15, note 7 at 2.
[39] Guideline B-15, note 7 at 4-6.
[40] Guideline B-15, note 7 at 2.

understandable information. Scenario analyses should be based on data used for investment decision-making and risk management.

The CCLI submits that BC's guidance should require financial institutions to disclose Scope 1, 2, and 3 GHG emissions (absolute basis) on a phased-in basis; disclose the standard used to calculate and disclose the emissions; and if the reporting standard used is not the GHG Protocol Corporate Standard, disclose how the reporting standard is comparable with the GHG Protocol Corporate Standard.[41] We appreciate that Scope 3 data will initially be challenging to assess and may initially have to be estimated; however, considering that Scope 3 emissions comprise the majority of end-to-end carbon emissions, it will be important to estimate, particularly for projects in which the credit union provides debt or equity financing. For financed, facilitated, and insured Scope 3 GHG emissions, the financial institution should use the latest Partnership for Carbon Accounting Financials (PCAF) Global GHG Accounting and Reporting Standard for the Financial Industry (PCAF Standard), and if the reporting initiative used by the financial institution is not the PCAF Standard, then disclose how the reporting initiative used is comparable with the PCAF Standard.[42] The financial institution should describe the targets it uses to manage climate-related risks and opportunities and the financial institution's performance against and progress towards these targets. These requirements would align with OSFI's Guideline B-15.

Adoption of a guideline for BC-regulated financial institutions would align with BCFSA's current eight key supervisory principles regarding risk assessment, specifically:

> Principle #1 Focus on material risk to a provincially-regulated financial institution (PRFI), including the potential for loss to depositors, policyholders, or beneficiaries.
>
> Principle #2 Risk assessment is forward-looking, which facilitates the early identification of problems and timely intervention where corrective actions need to be taken.
>
> Principle #3 Proportionality - risk assessment will consider size, scale, complexity, and nature of the PRFI's risk profile when applying the assessment criteria for rating the quality of risk management.
>
> Principle #4 Risk assessment relies on sound, predictive judgment with a clear, supported rationale.
>
> Principle #5 Risk assessment requires an understanding of the drivers of material risk to a PRFI, including business model, strategies, risk appetite, and knowledge of the PRFI's external and internal risk drivers and how they may expose vulnerabilities in the PRFI's risk management and mitigation.
>
> Principle #6 Risk assessment requires differentiation between the risks inherent to the activities undertaken by the PRFI and its management of those risks at both the operational and oversight levels.
>
> Principle #7 Dynamic Adjustment - risk assessment is continuous and dynamic to ensure that changes in risk, arising from both the PRFI and its external environment, are identified early.

[41] Guideline B-15, note 7 at 16.
[42] Guideline B-15, note 7 at 16.

> Principle #8 Assessment of the whole institution – supervision culminates in a consolidated assessment of risk to a PRFI, combining an assessment of earnings and capital in relation to the overall net risk from the PRFI's significant activities, as well as an assessment of the PRFI's liquidity, to arrive at a composite view.[43]

BCFSA has stated that its framework for risk-based supervision is informed by federal and international standards, including set by the Basel Committee on Banking Supervision and International Association of Insurance Supervisors, and adjusted for local market realities.[44] The CCLI supports a prudential framework that recognizes the importance of BC-regulated financial institutions building financial resilience against intensifying climate-related risks in each aspect of their business plans. We note that OSFI's Guideline B-15 aligns with the framework recommended by the Financial Stability Board's Taskforce on Climate-related Financial Disclosures (TCFD)[45] and the International Financial Reporting Standards (IFRS) Foundation's International Sustainability Standards Board (ISSB) S2 Climate-related Disclosures,[46] which will ensure Canada keeps pace with regulatory developments for financial institutions globally. The embedding of oversight and management of climate-related risks and opportunities in governance, strategic planning, risk management, targets, and metrics will reduce risks of credit union or other financial institution failure from the growing frequency and intensity of acute events and the longer-term risks of chronic impacts.

CCLI's recommendations also support the BC government's five principles of putting people first, lasting, and meaningful reconciliation, equity and anti-racism, a better future through fighting climate change and meeting GHG commitments, and a strong, sustainable economy that works for everyone.[47]

Further, the CCLI urges BCFSA to consider adopting OSFI's approach in its new Supervisory Framework for federally-regulated financial institutions, effective April 2024, to consider climate risk a "transverse risk" that crosses all areas of financial risk.[48] The framework is aimed at capturing the impact of systemic risks in 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 the relevant category. When we communicate with institutions it will be clear when climate risk is an issue.[49]

The chart below demonstrates the importance of climate risk to OSFI's entire supervisory framework.

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[43] BCFSA, *Supervisory Framework For Provincially Regulated Financial Institutions*, note 4 at 8-9.

[44] BC Financial Services Authority 2022/23 Annual Service Plan Report, note 5 at 9; BCFSA, *Supervisory Framework For Provincially Regulated Financial Institutions,* note 4 at 4.

[45] Financial Stability Board's Task Force on Climate-Related Financial Disclosure (TCFD) Framework.

[46] International Financial Reporting Standards (IFRS) Foundation, International Sustainability Standards Board (ISSB), S2 Climate-related Disclosures (2023).

[47] BC Financial Services Authority 2022/23 Annual Service Plan Report, note 5 at 5.

[48] 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).

[49] Ben Gully, Deputy Superintendent OSFI, Supervisory Framework Renewal – Briefing – Fall 2023, note 48.

OSFI Overall Risk Rating (ORR), effective April 2024

Climate Risk – transverse risk across all four categories of risk			
Business risk is the risk to viability arising from the business model.	**Financial resilience** is the ability for an institution to withstand financial stress given its financial risk profile, capital and liquidity.	**Operational resilience** reflects the ability of an institution to deliver its operations, including critical operations, through disruption. It is a prudential outcome of effective operational risk management.	**Risk governance** evaluates the institution's ability to identify significant risks and manage their impact.

Created by CCLI based on OSFI framework[50]

Recommendation 2: Endorse the Sustainable Finance Action Council's (SFAC) Green and Transition Finance Roadmap and co-operate as a member of the proposed Taxonomy Council's Indigenous, Provincial, and Territorial Government Stakeholder Advisory Group in advising the Taxonomy Council on developing the Green and Transition Finance Taxonomy.

A green and transition finance taxonomy is key to Canada's transition to sustainable finance as it will set standards for climate-related financial instruments and benchmarking climate risk management. The BC government can take a leadership role in endorsing the SFAC's Green and Transition Finance Roadmap.[51] Several BC representatives such as Vancity and British Columbia Investment Management Corporation participated in working groups and steering committees to develop the taxonomy, and their input has helped make the roadmap practical and feasible. The federal government in its 2023 Fall Economic Statement announced that the Department of Finance will work in consultation with regulators, the financial sector, industry, and independent experts, to develop a taxonomy that is aligned with reaching net zero by 2050.[52] BC should participate as a member of the proposed Taxonomy Council's Indigenous, Provincial, and Territorial Government Stakeholder Advisory Group in advising the Taxonomy Council as it moves forward.

A taxonomy is primarily a classification system – it outlines a common set of definitions and criteria to create clarity and agreement on what constitutes a "green" or "transition" investment. Taxonomies are a critical tool for solving two urgent and interrelated challenges within Canada's financial system: the ability to attract global capital to invest in Canada's low-carbon transition and to reduce the risk of "greenwashing".[53] Investors need transparency and certainty in order to make strategic investment decisions. A taxonomy does not dictate investors' or companies' investment or capital expenditure choices.

A science-based taxonomy will create the market integrity, clarity, and interoperability necessary to accelerate global capital investment in Canada's low-carbon transition. The SFAC recommendations need to be implemented to facilitate company-level net-zero target setting, transition planning, and effective

[50] Ben Gully, Deputy Superintendent OSFI, Supervisory Framework Renewal – Briefing – Fall 2023, note 48.
[51] Sustainable Finance Action Council (SFAC) Taxonomy Roadmap Report (2022) (hereafter Taxonomy Roadmap).
[52] Deputy Prime Minister Freeland, "2023 Fall Economic Statement" (21 November 2023), at 63, FES-EEA-2023-en.pdf (canada.ca).
[53] Taxonomy Roadmap, note 50.

climate disclosure; evaluate projects against framework criteria to determine whether they are green or transition; and assess projects against "do no significant harm" criteria. The proposed Taxonomy will flow capital to decarbonization opportunities across all major emitting sectors. BC has an important role in helping to develop the Taxonomy in a manner that protects the safety and soundness of the financial system, aligning with BCFSA's key supervisory risk assessment principles noted above. What is important is that the Taxonomy Council's governance is evidence-based, transparent, independent, timely, and results focused.

Recommendation 3: Encourage the Minister of Finance to amend section 51 of the Pension Benefits Standards Regulation pursuant to the BC *Pension Benefits Standards Act* to require that the pension plan administrator's written statement of investment policies and procedures (SIPP) includes a statement on how its policies and procedures address climate-related financial risks, including the plan's climate resilience (mitigation and adaptation) and how it weighs the risks and benefits in decisions with respect to its portfolio of investments and loans in light of the impending transition to a net-zero emissions economy.

It is vitally important that pension plans understand how climate risk impacts their portfolio from a risk adjusted returns perspective. A pension plan should expect its investment manager to report on the fund's carbon footprint, climate value at risk assessment under different scenarios, and the investment manager's strategy to address climate risk and opportunity.

Section 43(1) and (2) of the BC *Pension Benefits Standards Act*[54] specify that the administrator of a pension plan must have a written statement of investment policies and procedures (SIPP) in respect of the plan's portfolio of investments, and ensure that the pension fund is invested in accordance with the SIPP. Section 51 of the Pension Benefits Standards Regulation[55] pursuant to the *Pension Benefits Standards Act* specifies that the administrator of a pension plan, in establishing the SIPP required under section 43 of the *Act,* has regard to all factors that may affect the funding and solvency of the plan and the ability of the plan to meet its financial obligations, including categories of investments, diversification of the investment portfolio; asset mix and liquidity; the lending of cash or securities; and the method of, and the basis for, the valuation of investments that are not regularly traded at a marketplace. The SIPP must include a description of the factors to which the administrator had regard when establishing the statement, and how those factors were applied to establish the policies and procedures set out in the statement.[56] Arguably, this language is broad enough to cover climate risk, given its urgency and the transverse nature of the risk.[57]

However, the CCLI submits that the BC government should amend section 51 of the Regulation to require that the pension plan administrator's SIPP expressly includes a statement on how its policies and procedures address climate-related financial risks, including the plan's climate resilience (mitigation and adaptation) and how it weighs the risks and benefits in decisions with respect to its portfolio of investments and loans, in light of the impending transition to a net-zero emissions economy.

Pursuant to s 35 of the BC *Pension Benefits Standards Act,* the administrator of a pension plan must ensure that the plan and the pension fund are administered in accordance with the *Act*, the regulations and the plan documents. The administrator has a fiduciary duty in relation to plan members and beneficiaries, and has a duty to act honestly, in good faith, and in the best interests of plan members and beneficiaries, and

[54] *Pension Benefits Standards Act*, note 9.
[55] Pension Benefits Standards Regulation BC Reg 71/2015, note 8.
[56] Section 51(3), Pension Benefits Standards Regulation BC Reg 71/2015, note 8
[57] OSFI, note 48.

a duty to exercise the care, diligence, and skill that a person of ordinary prudence would exercise when dealing with the property of another person.[58] The administrator also has a duty to make investments in accordance with the *Act,* the regulations, and in the best financial interests of plan members and other persons entitled to benefits under the plan; and pension plan assets must be invested in a manner that a reasonable and prudent person would adopt if investing the assets on behalf of a person to whom the investing person owed a fiduciary duty to make investments, without undue risk of loss, and with a reasonable expectation of a return on the investments commensurate with the risk, having regard to the plan's liabilities.[59]

The duty of impartiality requires trustees and fund managers to balance intergenerational interests in determining short-, medium-, and long-term investments. In order for pension fiduciaries to fulfill their fiduciary duty to act prudently, clear baseline standards with respect to climate governance and risk management are required, including identification, oversight, and management of climate-related risks and opportunities material to the financial risk-return profile of the pension fund's investments in the transition to a net-zero emissions economy. The amendment would align BC pension fund investment policies with OSFI's Guideline B-15 for financial institutions and enhance BCFSA's supervision of 635 pension plans with $212.2 billion in assets protecting more than 1.2 million members.[60]

We look forward to discussing these issues with you.

Sincerely,

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[58] Section 35, BC *Pension Benefits Standards Act,* note 9.
[59] Sections 60(1) and (2), BC *Pension Benefits Standards Act,* note 9.
[60] As discussed at note 5.