Welcome to this week's presentation & conversation hosted by the **Canadian Association for the Club of Rome,** a Club dedicated to intelligent debate & action on global issues.

The views and opinions expressed in this presentation are those of the speaker & do not necessarily reflect the views or positions of CACOR.

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It's Time the Financial Sector Invested in Our Health and Well-being.

Biography: Karine Peloffy holds an M.Sc. (Environmental Change & Management) from U Oxford & a B.C.L./LL.B. from McGill U's trans-systemic law program. She joined Ecojustice in March 2024 as project lead for sustainable finance work. She authored the groundbreaking *Climate-Aligned Finance Act* and was an advocate for the *Canada Net Zero Accountability Act*. Karen has been a member of the Quebec Bar since 2007 and was director of the Quebec Center for Environmental Law (CQDE) from 2014 to 2018. She was deeply involved in the injunction that protected beluga whales against an oil terminal in the St-Lawrence. She has contributed to a diversity of environmental & social justice projects around the world & in Canada.

Description: With Canada's financial institutions among the main fossil fuel supporters, setting rules to require banks & pensions to align with climate action remains a key missing piece of Canada's climate plan. The *Climate-Aligned Finance Act*, which was drafted based on expert consultations & introduced two years ago by independent Senator Rosa Galvez, would fix this gap.

The presentation will be followed by a conversation, questions, & observations from the participants.

CACOR acknowledges that we all benefit from sharing the traditional territories of local Indigenous peoples (First Nations, Métis, & Inuit in Canada) and their descendants.

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2024 May 01 Zoom #195

Climate Aligned Finance Act (CAFA) Overview

Me Karine Péloffy

May 1st, 2024

This presentation borrows heavily from the CAFA presentation prepared by the office of senator Rosa Galvez

Ecojustice
Canada's Largest Environmental Law Charity

Our Mission

To use the law to defend nature,
combat climate change, and
fight for a healthy environment for all

Our Vision

A thriving environment, safe
climate, and healthy communities protected
by strong, well-enforced laws

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Presentation adapted from the Office of Senator Rosa Galvez:

Overview

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PART 1

Context & Rationale

- Climate change impacts
- The role of finance
- Benefits of ambitious action

PART 2

Climate-Aligned Finance Act (CAFA)

- Goals and objectives
- Structure of the Bill
- Key Actions

Contribution to the affordability crisis

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Climate change is **impacting ALL Canadians today**

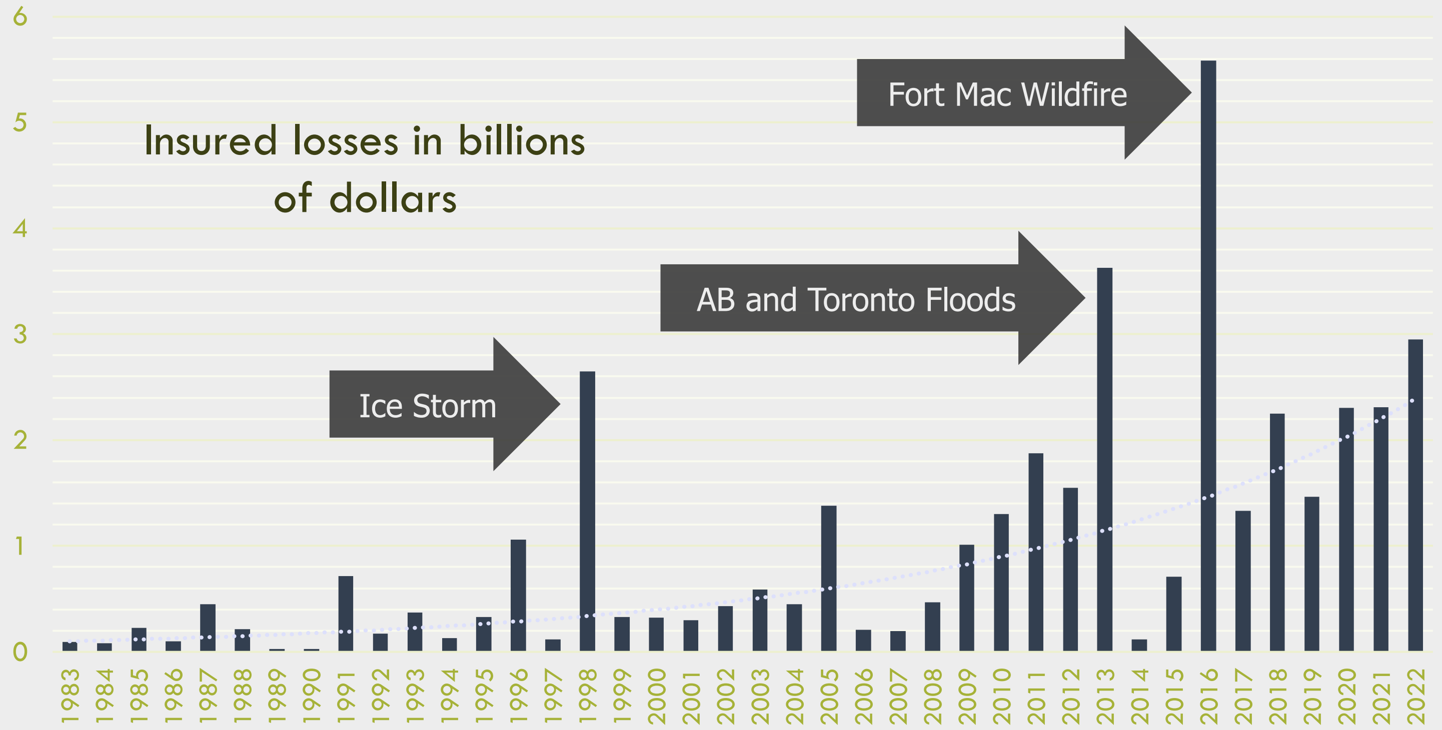
According to the Climate Change Institute, climate change ***already costs*** the average Canadian ***$700 a year.***

Extreme Weather

Health Impacts

Economic Costs

Unequal Impacts



The **three worst years of insured catastrophic losses from extreme weather in Canada occurred in the last decade**, excluding 2023, which was the hottest year on record.

Canadian home insurance rates are on the rise, and **up to 10% of all Canadian homes are or will soon become uninsurable** as a result of climate change.

Wildfires cost the Canadian insurance industry over **$3 billion in 2022, and again in 2023.**

Source: *Insurance Bureau of Canada, CatIQ, 2021 CAD, Concordia University, Environmental Defense*

Rationale

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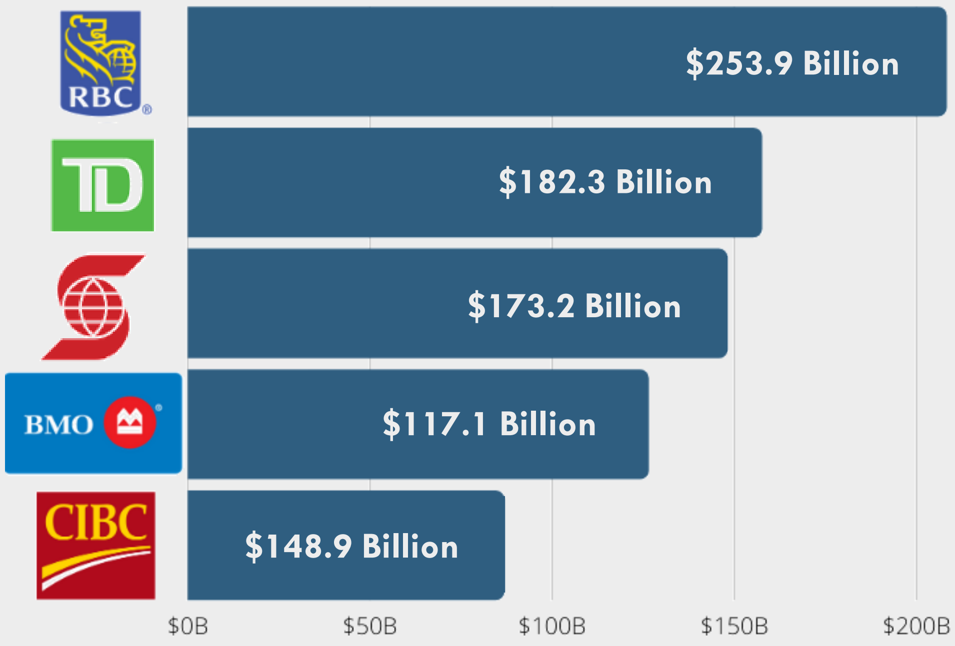
Our financial system is **fueling the climate crisis**

Fossil fuel investments 2016 to 2022

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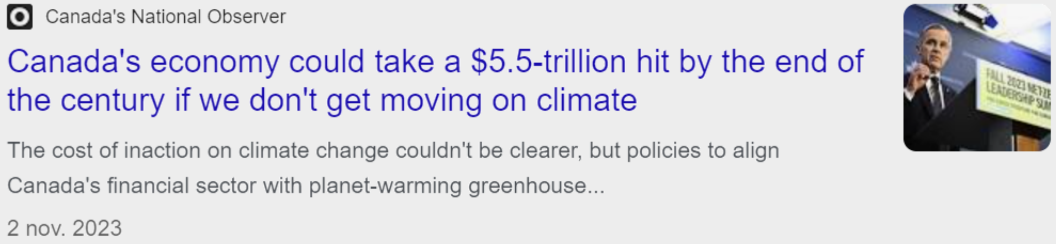
New research exposes 'deep entanglement' between pension boards and fossil fuel companies


Canada's National Observer

Canada's economy could take a $5.5-trillion hit by the end of the century if we don't get moving on climate

The cost of inaction on climate change couldn't be clearer, but policies to align Canada's financial sector with planet-warming greenhouse...

2 nov. 2023

Between 2020 and 2022, the Big Five steadily increased their fossil fuel financing exposure from an average of **15.5% in 2020 to 18.4% in 2022**, facilitating a total of **$275 billion** (USD) in financing to fossil fuel value chain companies over this period. This compares with an average of 6.1% for leading US banks and 8.7% for European banks across the same period.

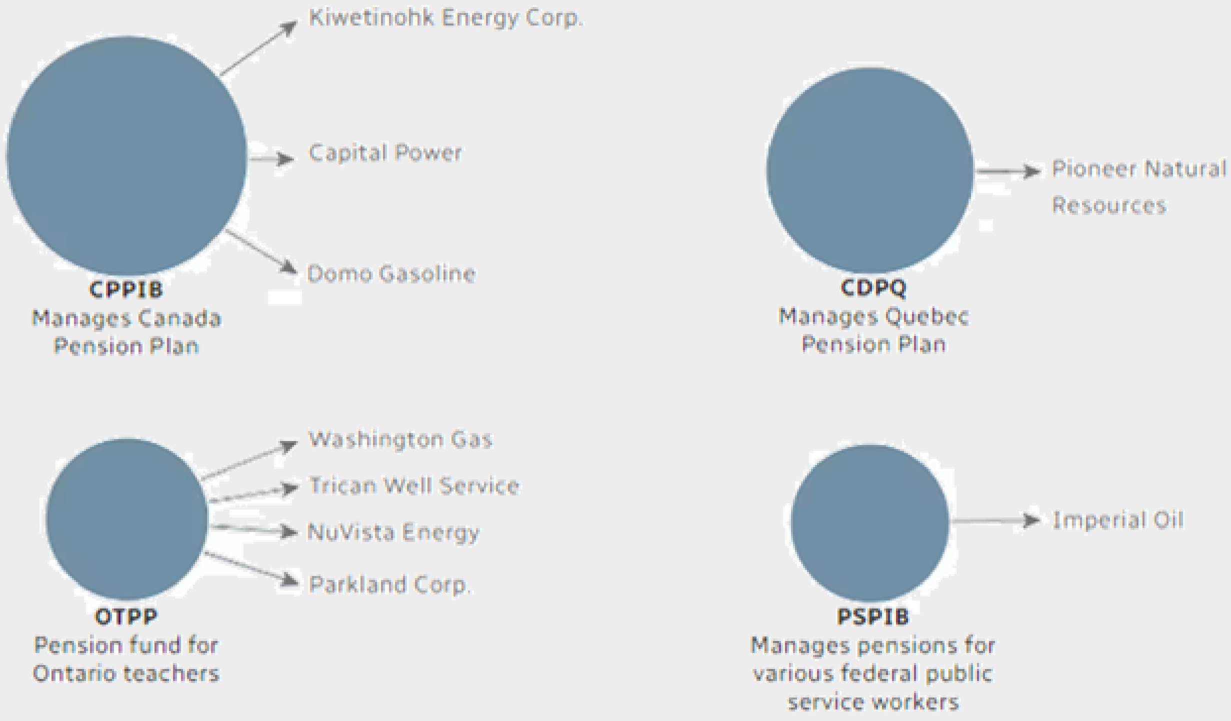
Source: *Rainforest Action Network, York University, National Observer*

Board entanglements

CBC

Science

Ties between pension fund directors and fossil fuels are 'incompatible' for some Canadians



Eight of Canada's 10 largest pensions fund managers have at least one high-ranking member, who is actively directing a company in the oil or gas sector.

The deep interconnection between Canada's fossil fuel industry and the financial sector is contributing to the **persistent inaction** of the sector to shift investments in accordance with Canada's climate commitments.

Source: *Shift Action, CBC News analysis (CBC)*

Benefits of Ambitious Action

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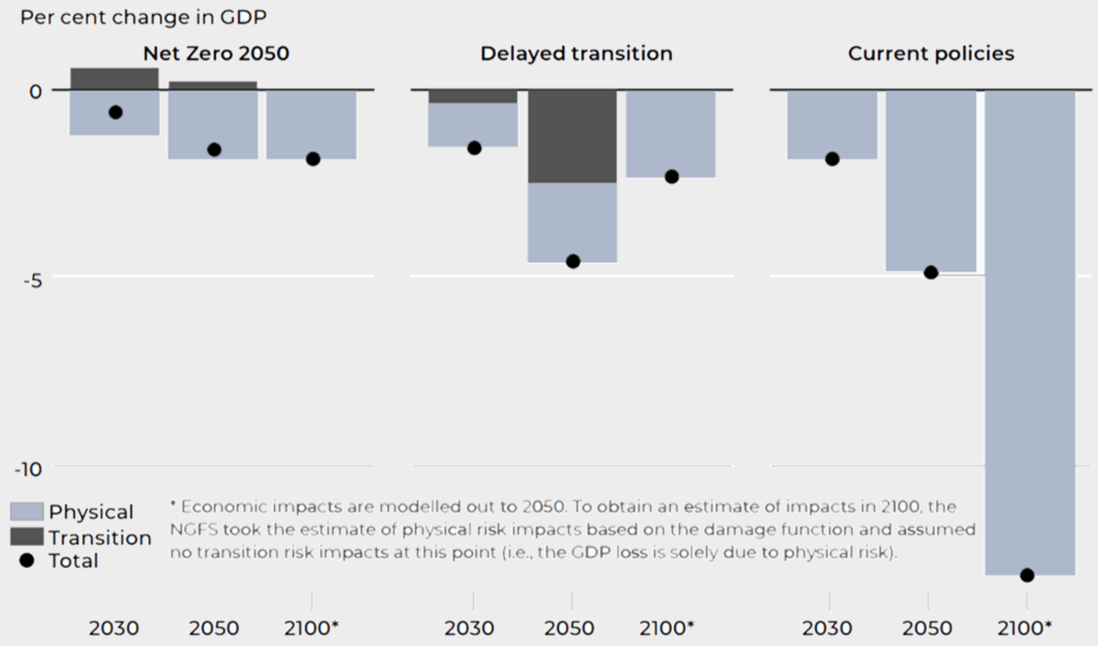
An ambitious transition costs **less than inaction**



Adapting the economy to confront climate change can save the **economy trillions of dollars** and will harness emerging economic opportunities in sectors like clean energy, which is projected to create **2.2 million jobs in Canada by 2050**. For the energy sector alone, a rapid transition to green energy could **save the global economy up to $12 trillion.**

Well-designed policies can:

1. Better plan and structure transition
2. Drive down the costs of reducing emissions
3. Create the conditions for a just transition
4. Make the government and financial institutions more transparent and accountable
5. Generate finance for truly clean technologies
6. Contribute to broader sustainable development efforts
7. Carry co-benefits for other social and governance goals

***Source**: Canadian Climate Institute, Concordia University* ecojustice

Enacting Climate Commitments Act (ECCA) (shell act)

Part 1: *Climate-Aligned Finance Act* (CAFA) (embedded act)

Definitions and purpose

Part 1
Alignment requirements

Part 2
Reporting requirements

Part 3
Capital adequacy requirements

Part 4
Expertise, conflicts of interest, and duties

Part 5
Enforcement and orders

Part 6
Financial products action plan

Part 2

Amendments to Existing laws:

- Bank of Canada
- Export Development Canada
- Parent Crown Corporations
- Office of the Superintendent of Financial Institutions
- Public Sector Pension Investment Board
- Business Development Bank of Canada
- Canada Infrastructure Bank

Coming into force of CNZEAA S.23

Part 3: Reviews and Reports

Part 4: Canada Pension Plan Investment Board

Part 5: Coming into Force

The Climate-Aligned Finance Act (CAFA)

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CAFA does the following:

1. Establishes a duty for directors, officers and administrators to align entities with climate commitments
2. Aligns purposes, including market oversight by OSFI, with climate commitments
3. Obligates entities to develop action plans, targets and progress reports on meeting climate commitments through annual reporting requirements
4. Ensures climate expertise on certain boards of directors and avoids conflicts of interest
5. Makes capital adequacy requirements proportional to microprudential and macroprudential climate risks generated by financial institutions
6. Requires a government action plan to align financial products with climate commitments
7. Mandates timely public review processes on implementation progress to ensure iterative learning

Key Definitions

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Climate Commitments: Includes our current obligations and commitments under the **UNFCCC, Paris Agreement**, and the **Canadian Net-Zero Emissions Accountability Act**.

a) reduction of emissions on a pathway that respects the global carbon budget and is consistent with **limiting global temperature increase to 1.5°C** over pre-industrial levels, with no or low overshoot;

b) **elimination of dependence on and lock-in** of emissions-intensive activities, including by avoiding new fossil fuel supply infrastructure and exploring for new fossil fuel reserves and instead planning for a fossil fuel–free future;

c) **preservation, enhancement and restoration of natural carbon sinks**, including forests and peatland; and

d) **enhancement of the capacity to adapt** and reduce vulnerability to actual and expected impacts of climate change, including by increasing the resilience of socio- economic, built and ecological systems.

Financially Facilitated Emissions: The term aims to capture all financial operations of financial institutions including, for example, off-balance sheet activities which are often excluded from voluntary disclosures.

Do No Harm

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Climate action must be designed considering vulnerable groups, communities and affected ecosystems, maintaining food security and avoiding exacerbating inequalities in society

Biodiversity and restoring natural carbon sinks must be undertaken simultaneously with addressing industrial GHG emissions

CAFA ensures respect for the rights of indigenous peoples everywhere that federal financial institutions financially facilitate activities, not just in Canada.

Members of the Neskantaga First Nation protesting in the Ontario Legislature, March 2023.

Key Definitions

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Alignment with Climate Commitments

An entity in alignment with climate commitments:

a) does not cause, exacerbate or prolong vulnerabilities to the effects of climate change, including loss of biodiversity;

b) refrains from any land disturbance affecting carbon sinks unless the project's or activity's end state will result in a positive climate change impact;

c) produces overall positive or neutral climate change impacts; and

d) does not undermine legal and other remedies available to redress climate harm or negative climate change impacts.

They also respect the rights of Indigenous Peoples, take vulnerable groups into consideration, make decisions based on the best-available science, does not exacerbate food insecurity or inequality in society, or hinder other social or environmental obligations.

The Act also defines emissions, emission-intensive activity, fossil fuel activity, global carbon budget, person with climate expertise, climate change impacts, financially facilitate, and others.

Ambition

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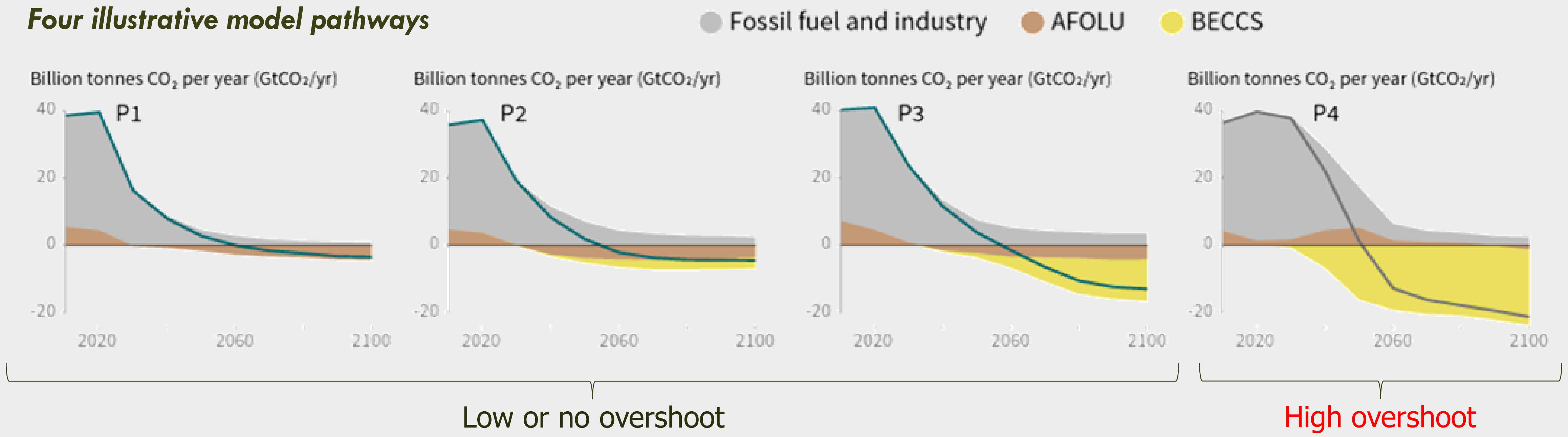
OSFI → 1.5°C (no details)

TCFD → 2.0°C or lower

CAFA requires a "reduction of emissions on a pathway that respects the global carbon budget and is consistent with limiting global temperature increase to 1.5 degrees Celsius over pre-industrial levels, with no or low overshoot"



Source: *IPCC SR1.5*

Financially Facilitated Emissions

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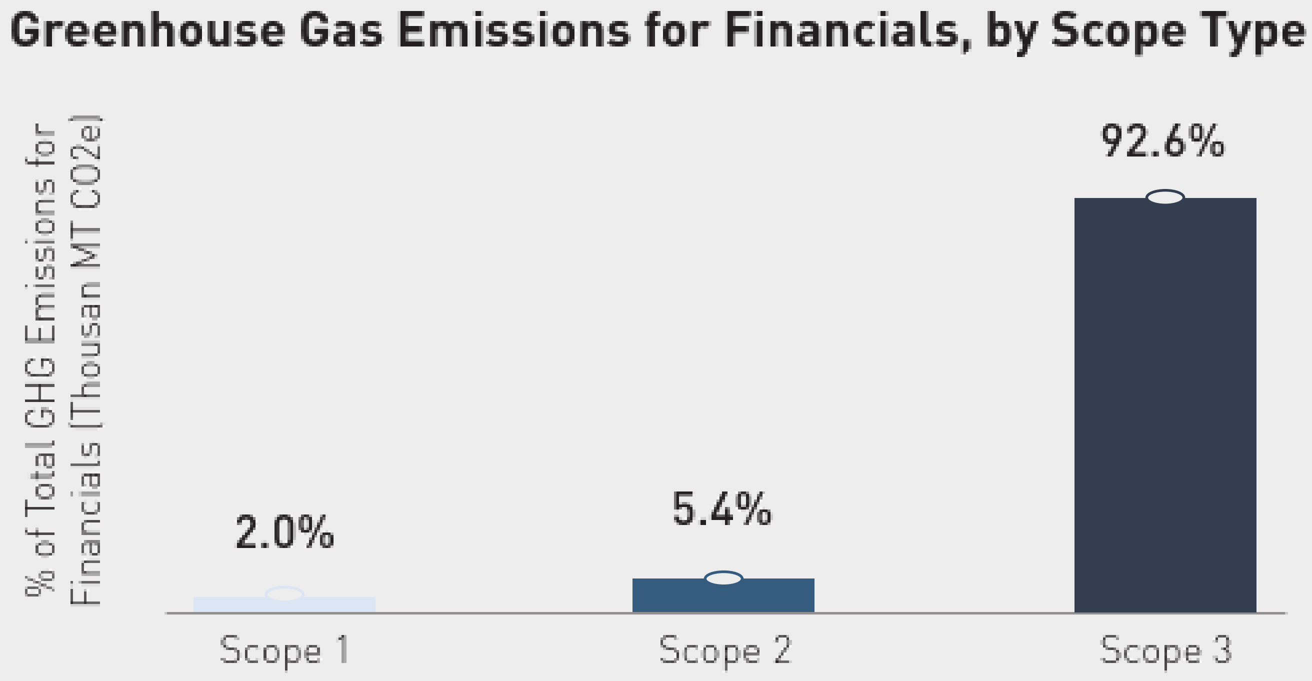
Financial institutions' biggest climate impact lies with how they allocate their capital flows

TD (447 Mt) and RBC (369 Mt) alone financed more emissions in 2020 than **all of Canada** generates annually

- CAFA requires that all asset classes are included, absolute emissions reductions, and engagement with associated entities.



Source: RPIA

1. Superseding Public Interest Matter and Duty to Align with Climate Commitments

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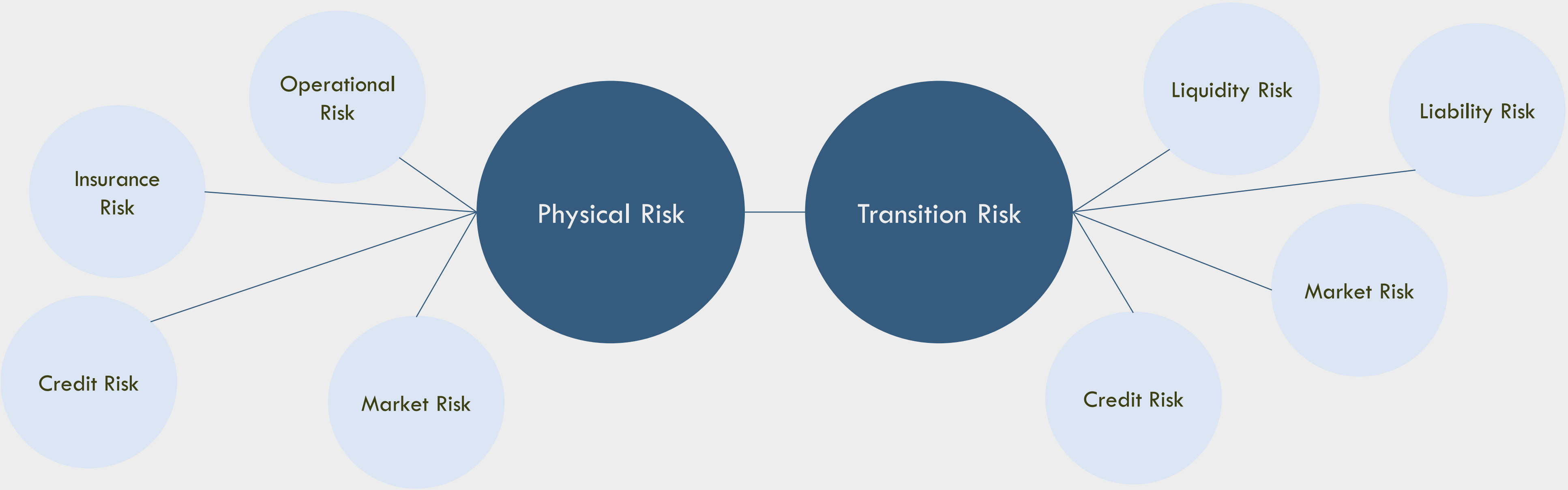
CAFA creates a new duty for directors **to exercise their powers in a way that enables their organization to be in alignment with climate commitments.**

The duty is superseding – directors must give **precedence** to that duty over their other duties. CAFA establishes alignment with climate commitments as a superseding public interest matter affecting all entities covered by the Act.



This applies to all entities, including the Bank of Canada and the Office of the Superintendent of Financial Institutions (OSFI)

2. Align Purposes with Climate Commitments

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The Act aligns following entities with climate commitments:

- Bank of Canada
- Parent Crown corporations (through the Financial Administration Act)
- OSFI
- Public Sector Pension Investment Board
- Business Development Bank of Canada
- Canada Infrastructure Bank
- Export Development Canada
- Canada Pension Plan Investment Board

By adding the following (usually) under the 'Purpose' section:

Climate commitments

The Corporation may only exercise its powers in a way that enables it to be an entity that is in alignment with climate commitments as described in section 4 of the *Climate-Aligned Finance Act*.

3. Target-Setting, Planning, and Reporting

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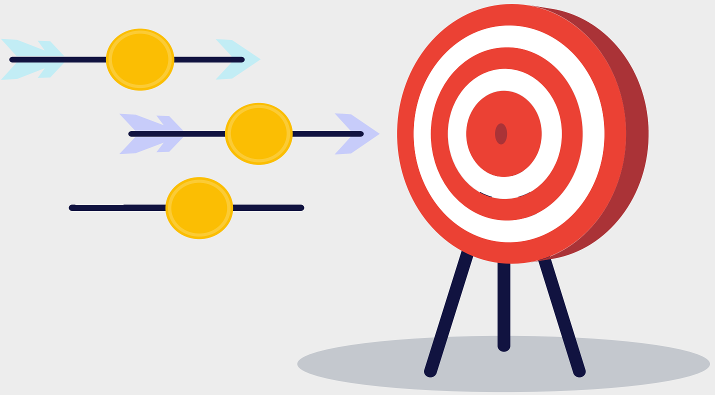
Organizations set their own **targets** at 5 years intervals starting in 2025 and continuing to 2050.



Plans must include:

- Measures to prioritize and encourage immediate and ambitious action
- Emissions reductions within the value chain
- Innovation to replace emissions-intensive activities
- Operational and capital allocation
- Consideration of executive compensation
- Consideration of strategy to ensure the achievement of targets

Reports must:

- Use the best available scientific evidence
- Demonstrate how they align with climate commitments
- Provide details on emissions, targets, plans, and progress

Offsets, CCS, and NETs

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Carbon offsets, while seemingly a simple market-based solution for efficient emission reductions, carry significant limitations and risks, making them a controversial aspect of climate change mitigation

- The Climate-Aligned Finance Act acknowledges these concerns and attempts to build in safeguards limiting the use of carbon offsets in a judicious and nuanced way.
- According to CAFA, offsets cannot be used as a substitute for reducing operational or financed emissions they may only be used in cases where they are strictly necessary to neutralize minimal residual emissions that cannot be eliminated with existing technology

Regarding emission removal technology, only forbids future reliance not current reliance, so it allows ongoing uses of emissions removal for any purpose including in the fossil fuel sector. The rationale being that if it is presently working, it should be allowed to continue.

- However, CAFA does allow for reliance upon, or presupposition of, the future invention, discovery, or wide-scale deployment of emissions removal, capture, or storage for residual emissions for any purpose other than to justify continued or increased fossil fuel activities

4. Conflicts of Interest and Climate Expertise

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Conflicts of Interest

Board members of reporting entities can't work for, provide services for, lobby for in the past five years, or actively control stock in an organization that is not in alignment with climate.

Also, board appointees for Crown corporations can't accept gifts, etc. from non-aligned entities.

Leveraging Climate Expertise

At least one climate expert on the board of directors for major Crown corporations and pensions boards.

5. Capital Adequacy Requirements

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CAFA requires OSFI to develop **new guidelines for capital adequacy** to help offset the increased risk of banks' investments in emissions-intensive activities.

The act also empowers OSFI to use its existing measures to **enforce** these new requirements.

A **second set** of guidelines regarding funding requirements for pension plans, insurance companies and other entities that report to OSFI will be published within 6 months of the first set, which would include:

- Increased differentiated capital risk weights for financial exposures that face acute transition risks of new (1250%) and existing (150%) fossil fuel assets.
- Systemic climate risk contribution capital surcharge that recognizes the extent to which financial institutions facilitate greenhouse gas emissions through all forms of financial facilitation.

6. Government Action Plan

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CAFA requires a **government financial products action plan** which identifies other ways to support climate action and commitments alignment including:

- Collaborate with provinces regarding securities regulation and consumer protection
- Changes to taxation, including removal of subsidies
- Consultation with various federal institutions and persons with climate expertise
- Criteria for identifying financial products whose purposes are aligned with climate commitments
- Mechanisms to make sure proceeds aren't greenwashed
- Engaging with provinces regarding securities

The plan must be published within one year of coming into force.

7. Reviews and One-Time Reports

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One-Time Reports

1. A report by the **Minister of Finance** regarding the perspectives of Indigenous Peoples on various climate finance subjects.
2. A report by the **Bank of Canada** about whether monetary policy aligns with climate commitments.

Both reports tabled within two years of royal assent.

Reviews

1. **Independent review** of the Act and its administration every three years.
2. Comprehensive **Parliamentary review** of the Act's provisions and their operation every three years.
3. Annual **implementation review** by OSFI and Minister of Finance for their respective oversight responsibilities.

Who does this apply to?

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There are two broad categories of entities upon which we place requirements:

Federal Financial Institutions

The list includes the Bank of Canada; several Crown corporations which have substantial financial portfolios; public service and federally-regulated pension plans; banks; trusts, funds, and holding companies; cooperative credit associations; and insurance companies.

Federal financial institutions have reporting requirements above and beyond those of regular reporting entities including the need to disclose and align *financially facilitated* activities.

Reporting Entities

This category includes all *federal financial institutions*, federally-incorporated corporations, federally regulated workplaces ("federal work, undertaking or business"), and Crown corporations listed in schedule III of the *Financial Administration Act*.

Reporting entities are subject to the reporting requirements.

Who does this apply to?

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Basic Reporting Requirements (*Reporting Entities*)

- Corporations under the CBCA
- Parent Crown corporations
- Federal work, undertaking or business
    - Shipping & railway companies
    - Interprovincial ferries
    - Airlines

Enhanced Reporting Requirements (*Federal Financial Institutions*)

- Banks
- Trust & loan companies
- Insurance companies
- Pensions
- Bank of Canada
- Several key Crown corps, including EDC, BDC, CHMC.

Category	Quantity	Examples
Banks	83	RBC, Scotiabank, Bank of Montreal
Trust and loan companies	57	HSBC Mortgage Corporation (Canada), TD Mortgage Corporation
Insurance companies	219	Blue Cross Life Insurance Company of Canada, Green Shield Canada
Pension Plans	~1200	RBC Pooled Registered Pension Plan, Air Canada Pension Plan
Corporations within the meaning of the CBCA	~420,000	Canada Imperial Oil Limited, Canadian Tire Services Limited, Little Victories Coffee Inc.
federal work, undertaking, or business	100,000+	Navigation and shipping, railways, interprovincial ferries, airlines, etc.

‘Key’ Crown Corporations

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The following CCs have **expertise requirements** for board appointment:

- Canadian Deposit Insurance Corporation
- Canadian Housing and Mortgage Corporation
- Canadian Commercial Corporation
- Export Development Canada
- All Parent Crown corporations under the Financial Administration Act
- Farm Credit Canada
- Business Development Bank of Canada
- Canada Infrastructure Bank
- Public Sector Pension Investment Boards

CAFA is Endorsed by Over **120** Organizations

"I certainly support Bill S-243. I think there are aspects of it that may be strengthened through the debates and parliamentary process. I think it's a compilation, as Senator Galvez has said, of some of the best practices around the world. Motion 84 that I tabled in the House of Commons as a signal and a sign to both the government and to other parties that we need to start to have these debates in preparation for what I hope will be a successful passage through the Senate of Senator Galvez's Bill, whereupon we can start our parliamentary work on that Bill."

– MP Ryan Turnbull / now PS to Finance and Innovation ministries)

M-84 Alignment with the **Paris Agreement**

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MOTION TEXT "That, in the opinion of the House, the government should use all legislative and regulatory tools at its disposal to align Canada's financial system with the Paris Agreement made by the Conference of Parties under the United Nations Framework Convention on Climate Change."

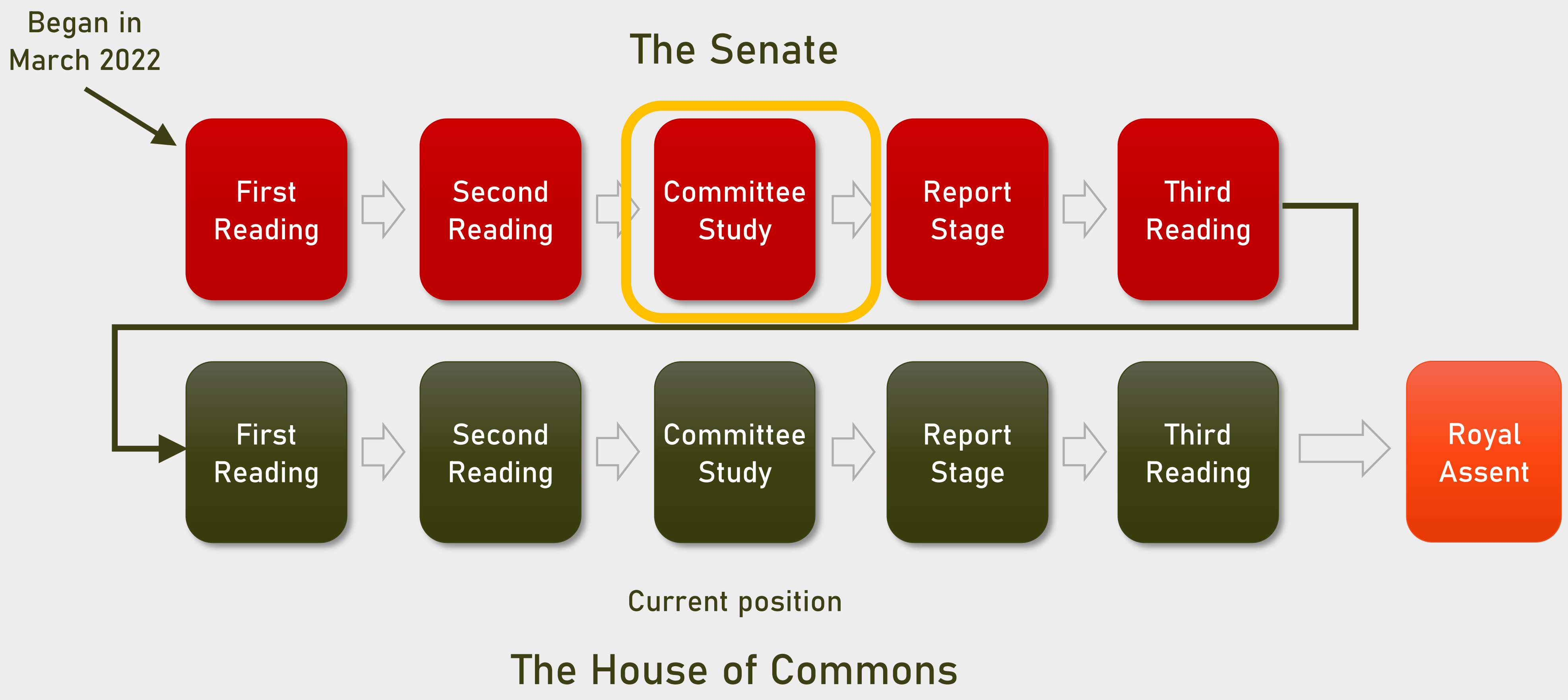
- 16 Joint Seconders from MPs from 4 out of the 5 official parties in the House of Commons

Placed on notice May 5, 2023

16 jointly seconded by August 31, 2023

CAFA's Progress Through Parliament

CAFA is currently at **Second Reading** in the Senate.



Let's Stay In Touch!

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