

Changing Gears: Sustainable Finance Progress In Canada

EXECUTIVE SUMMARY

September 2021

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Executive Summary

The Canadian Expert Panel on Sustainable Finance (CEP) was convened in 2018 to explore opportunities and challenges facing Canada in this field. The panel's terms of reference included working with the private sector and the federal government to consider private-public leadership opportunities to advance sustainable finance opportunities in Canada. The CEP released its final report in June of 2019, in the form of 15 recommendations "aimed at 'connecting the dots' between Canada's climate objectives, economic ambitions and investment imperatives" (Expert Panel Report, I). The need to make these connections has only grown in urgency over the past two years in the wake of the most recent Intergovernmental Panel on Climate Change (IPCC) report, Canada's heightened climate target ambitions, and intense global public and private sector focus on net-zero climate emissions, plans, and adaptation strategies. We have also seen increasing pressure from the global investment community to address and disclose material climate risk.

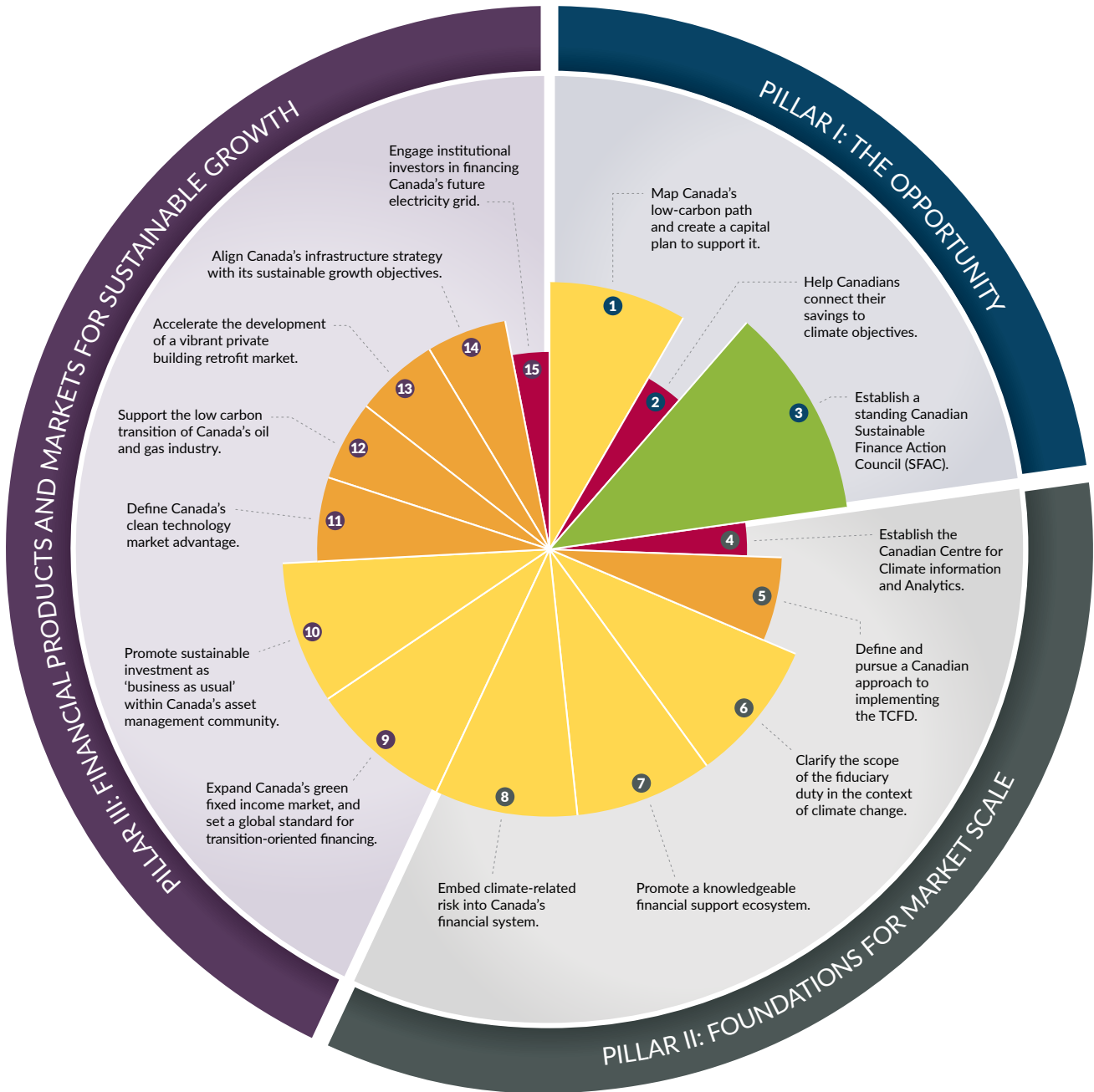
The ISF has undertaken an assessment of Canada's progress on the Expert Panel recommendations and on sustainable finance in general, and we highlight where there is need for additional and accelerated actions. There is a great deal of interconnectivity between the CEP recommendations and the key issues identified during the assessment process. This is a testament to the fact that the CEP hit the nail on the head in terms of identifying the key sustainable finance issues facing Canada, which is the good news. The bad news is that, despite considerable progress, many of the central issues noted in the CEP report facing Canada in 2019 are still among those we are grappling with today.

RESEARCH APPROACH

Our report begins with a thorough analysis of the progress made with respect to implementing the 15 recommendations as a springboard to discuss more broadly the current state of sustainable finance development in Canada. We begin our analysis by conducting a landscape review of actions and initiatives that have taken place over the last two years with respect to the recommendations. We supplement this landscape review with an interview process that engaged 34 interviewees, including three of the four members of the CEP. The experts were chosen to provide diverse perspectives on the numerous sustainable finance issues facing Canada today. We also brought together an Advisory Council of experts from across the financial industry to provide input and advice on the research and analysis.

PROGRESS ON CEP RECOMMENDATIONS

The figure below summarizes our assessment of progress on the 15 recommendations.



Progress Made

- **Significant:** Substantial actions and increased momentum have resulted in tangible outcomes.
- **Moderate:** Some substantial actions and/or meaningful momentum are increasing the near-term likelihood of tangible outcomes.
- **Marginal:** While some action has taken place or is underway, momentum toward tangible outcomes has been slow.
- **Minimal:** Few actions have/are taking place and/or there is limited momentum toward tangible outcomes.

KEY THEMES

We combined the results of our landscape review with the feedback from our interview process to identify key themes and potentially high impact areas critical to Canada's future progress with respect to making an effective transition to a sustainable and prosperous economy. We briefly discuss each of these seven themes below, and refer the reader to the complete report for additional details:

- 1. Accelerated action and execution is needed.** Canada has started to develop many of the foundational elements laid out in the Expert Panel recommendations necessary to accelerate sustainable finance. While it has only been two years since the release of the report, and we have been dealing with a global pandemic for the last year and a half, it is clear that progress has been too slow, and there is still a great deal of work to do. Clear execution is needed over the short term, and there is financial institution and expert support and engagement to help move this forward.
 - The most frequent comment made by interviewees was that Europe and the UK have been setting the tone in terms of discussions and actions related to sustainable finance issues, and that Canada has fallen behind. This leaves us playing catch-up, and it is becoming clear that the Biden Administration will be moving very quickly.
 - The general consensus among interviewees was that the private financial sector is now moving faster than the government and regulators in Canada. The government needs to set the framework and standards for the private sector to respond and to attract investment for industry to transition. Experts made particular reference to important foundational elements such as disclosure and fiduciary duty. The analysis and research on how to implement these elements are available, and governments need to act now to set these standards and to establish processes for their evolution over time.
- 2. Our financial ecosystem needs to embrace change.** There was strong support for the need to shift the approach and behaviours of Canada's investment industry and financial institutions. Sustainable finance has moved beyond being a functional requirement for firms, and it is now a commercial imperative. This was reflected in many comments relative to several specific and related issues, which are divided into private, public, and public-private sector categories below; although, there is clearly a relationship across the first two categories:
 - Private Sector Focus**
 - a. Creating and taking advantage of innovative financing options and investment products, which was the most frequently cited opportunity.
 - b. Engaging the public and leveraging the retail investor base to support the net-zero transition.
 - c. Capitalizing on the investor engagement opportunity.
 - Public Sector Focus**
 - d. Mandating disclosures in alignment with the Task Force on Climate-related Financial Disclosures (TCFD) recommendations, as well as those of the Sustainability Accounting Standards Board (SASB).
 - e. Clarifying the scope of fiduciary duty in law and practice.
 - Public-Private Sector Focus**
 - f. Use Canadian financial sector expertise on infrastructure to develop a pipeline of projects to finance in Canada for net-zero transition.
 - g. Addressing sustainable finance data issues.
 - h. Dealing with issues related to investment product labelling and greenwashing.
 - i. Dealing with the risks associated with capital flight.
- 3. Canadian-specific solutions are required.** We need sector-specific decarbonization pathways and transition scenarios that are supported by research within a Canadian context.¹ Further, we need to develop the financing innovations and mechanisms for implementation. It is worth noting that supporting the energy transition was a commonly cited need for short-term action. In addition, transitioning the oil and gas sector and ensuring a just transition were commonly cited risks. Related to this theme, interviewees emphasized the importance of completing the Canadian Transition Taxonomy.

¹ For example, please refer to: (1) "Transition Accelerator, "Pathways to Net-zero," <https://transitionaccelerator.ca/pathways-to-net-zero/>; and, (2) Canadian Institute of Climate Choices, "Canada's Net-zero Future," <https://climatechoices.ca/reports/canadas-net-zero-future/>.

4. **Sustainable finance must include more than climate.** In the wake of COVID-19 and in the context of Canada's reckoning with the urgency of truth and reconciliation with Indigenous peoples, interviewees urged for a broader, more inclusive, and socially concerned sustainable finance conversation. It is also important to consider biodiversity loss and ecosystem collapse, which the World Economic Forum rated as one of the top five risks over the next 10 years.²
5. **Canada's net-zero transition requires a more unified approach and narrative.** There has been a largely disaggregated mosaic of perspectives on sustainable finance and the net-zero transition in Canada. It was noted that the concept is still not well-defined and understood. As a result, which activities and actions count as net-zero remain to be determined and are likely to be industry-specific. There is a need to establish a more centralized voice and perspective for the country, as well as strengthened communication channels across public and private sectors. Relatedly, policy uncertainty in Canada continues to be a major concern among participants that were interviewed.
6. **While climate mitigation is critical, we need a greater focus on adaptation and resiliency.** Many interviewees noted that climate resilience and adaptation have continued to be priorities as climate change impacts become more apparent. With increasing number and intensity of fires and floods across the country and their impacts on communities and businesses, it is not surprising that this is top of mind. In addition, concerns were raised about access to reinsurance, as the large reinsurers are European and feeling the pressure to transition away from high-carbon sectors.
7. **Clean Innovation and other opportunities need more support.** The importance of capitalizing on cleantech opportunities, as well as our lack of progress to date in doing so was frequently noted. For example, technologies to support oil and gas transition such as hydrogen, and carbon capture, utilization, and storage (CCUS) were frequently raised as Canadian opportunities. Other "not to be missed" Canadian opportunities include scaling building retrofits, becoming a global leader in the production of transition materials (e.g., minerals to batteries to electric vehicle supply chain), and leveraging our low-carbon electricity grid for inter-provincial and North-South integration into US electricity markets. Finally, it was viewed that Canada has opportunities for nature-based solutions and taking advantage of carbon markets as they scale.

CONCLUSIONS

The transition of Canada's economy to a sustainable and prosperous one is both a sprint and a marathon. What this report suggests is that we have been slow out of the gate, and also that we are making progress – there are some opportunities to make up for lost ground and to put ourselves in good position for the long run. The Canadian Expert Panel Report provided a strategic roadmap on sustainable finance for the public and private sectors to further develop and implement. Two keys to accelerating this progress are creating a more unified approach and unlocking private capital, so that it will increasingly be allocated through a sustainable finance lens.

With global momentum continuing to build on sustainable finance, there is an urgent need to execute on the foundational recommendations of fiduciary duty, disclosure, transparent and usable data, and a clear taxonomy for transition. Additional collaboration, engagement, and a transparent process to bring together a coherent public and private sector perspective for executing on these foundational elements are required over the short and long term. The implementation of these foundations will inspire the confidence and clarity for unlocking private capital and the innovation needed to support industry sector transition, infrastructure development, and support for new industries and supply chains for a net-zero, sustainable economy. Success is essential for Canadian competitiveness.

² See: <https://www.weforum.org/reports/the-global-risks-report-2020>.