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COMMENTS ON THE INTERIM REPORT OF CANADA'S EXPERT PANEL ON SUSTAINABLE FINANCE

This is Third Generation Environmentalism's (E3G) response to the Interim Report of Canada's Expert Panel on Sustainable Finance, open to comments until 31 January 2019.

Context

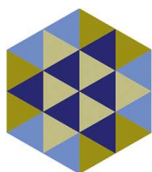
The Expert Panel's process of stakeholder consultation on opportunities and challenges to sustainable finance and climate-related risk disclosures comes at an important moment.

- > In 2015 Canada, along with 194 other signatories to the Paris Agreement, committed to "making finance flows consistent with a pathway towards low greenhouse gas emissions and climate-resilient development".
- > In 2018 the 2018 Intergovernmental Panel on Climate Change (IPCC) special report¹ stated that there are twelve years left to limit warming to 1.5°C above pre-industrial levels, thus avoiding many dangerous climate change impacts.
- > The impact of bold climate action is conservatively estimated to provide a direct economic gain of USD 26 trillion between now and 2030 compared to business as usual, according to the New Climate Economy of the Global Commission on Economy and Climate Change.
- > Institutional investors are increasingly concerned about the risk of very high financial losses as a result of climate change, potentially resulting in a financial crash worse than the 2008 crisis².
- > Research on the implications of the low carbon transition for Canada's economy, in which the oil and gas sector plays a major role, has highlighted very large public equity at risk in the oil and gas sector with potentially unmanageable impacts on financial stability.
- > Governments and financial regulators around the world are in the process of responding to these risks and opportunities, and Canada stands out as the only major oil and gas economy taking a leadership role on sustainable finance.

¹ Intergovernmental Panel on Climate Change (2018) Summary for Policymakers. In: Global Warming of 1.5 °C - an IPCC special report on the impacts of global warming of 1.5 °C above pre-industrial levels and related greenhouse gas emission pathways, in the context of strengthening the global response to the threat of climate change, sustainable development, and efforts to eradicate poverty. [PDF]. Available from:

https://www.ipcc.ch/site/assets/uploads/sites/2/2018/07/SR15_SPM_High_Res.pdf

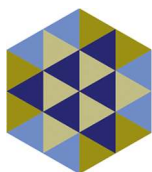
² <https://www.theguardian.com/environment/2018/dec/10/tackle-climate-or-face-financial-crash-say-worlds-biggest-investors>



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E3G comments on the Expert Panel's Interim Report

- i. E3G commends the Canadian Ministries of Finance and Environment for establishing the Expert Panel and for giving it a remit for exploration and consultation across multiple stakeholders.
- ii. Canada's Expert Panel has conducted its work in the context of much international activity on sustainable finance. Among many other developments the European Commission's is taking forward its Sustainable Finance Action Plan, the Bank of England's Prudential Regulatory Authority has published a draft Supervisory Statement for banks and insurance firms, and China is requiring mandatory corporate climate disclosure by 2020. Meanwhile the Network of Central Banks and Supervisors for Greening the Financial System represents a mechanism for international collaboration and merged ambition.
- iii. Within all of these initiatives there is increasing recognition that integration of climate change into financial markets is not a sectoral or niche issue, but a systemic one. In this light we welcome the Panel's working definition of sustainable finance 'as a means of promoting sustainable economic growth and the long-term stability of the financial system'. However it is also important to remember the environmental context outlined earlier in this document; a stable financial system requires a stable planet, and sustainable finance must also preserve environmental and social stability.
- iv. The Panel has taken an innovative step in identifying six 'foundational elements' for unlocking mainstream engagement in sustainable finance in Canada. These elements are conceived as ensuring appropriate system boundaries within which financial practice and innovation can take place, or in the Panel's own words "get to the heart of institutional, attitudinal and economic incentives and structures".
- v. We note that the foundational elements identified by the Expert Panel do not include a classification system for sustainable activities. In its report the Expert Panel has noted the challenges involved in using such taxonomies as a framework to direct financial flows towards the substantial investment in transition from 'brown' to 'green' activity which is required for the low-carbon economic transition. E3G's views that the primary function of the taxonomy at present in Europe – while legislation is still some way off – is to enable a public discussion to take place as to how best to direct financial flows to fund a low-carbon transition. This debate is taking place between firms, sectors and jurisdictions as part of a global economic shift. Once a taxonomy is established then there will inevitably be implications for financial sector firms in Canada which are part of the global financial system. However the opportunity for Canada right now is to participate in the wider debate and to add its specific perspective, as an oil and gas rich economy, as to other key elements that are needed for the global economic transition. The Expert Panel process itself, including this consultation, provides such an opportunity.
- vi. The Panel's mandate included a specific mission to consider the role of climate-related financial disclosure in Canada. E3G's position is that mandatory requirements for



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companies and financial sector firms in line should be put in place as soon as possible, in line with the recommendations of the Taskforce for Climate-related Financial Disclosures. Substantial work has been done to by IISD³ in its 2019 publication ‘Leveraging Sustainable Finance in Canada’ to map out exactly how this might be accomplished in the Canadian context on a suitable timeframe to fit the urgent need for action, and we recommend careful consideration of these recommendations. A suitable time and place for Canada to announce its plans for action in this area might be the UN Secretary-General’s Summit on Climate Change, in September 2019.

Concluding comments

E3G is highly supportive of the Expert Panel’s work, and we thank the Panel for the opportunity to comment on the Interim Report. We will be happy to make ourselves available to discuss any of the content in this submission and look forward to discovering the Panel’s final recommendations.

Signed

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About Third Generation Environmentalism (E3G)

Third Generation Environmentalism Ltd. (E3G) is a UK-based not-for-profit think tank working to accelerate the global transition to a low carbon economy. In 2017 E3G delivered “15 Steps to Green Finance” with the City of London Corporation. This led to E3G’s invitation to act as the Secretariat for the UK’s Green Finance Taskforce (GFT) which made recommendations in March 2018 on how the government and the private sector can work together to make green finance an integral part of UK financial services.

³ <https://www.iisd.org/sites/default/files/publications/leveraging-sustainable-finance-canada.pdf>