

September 26, 2017

Eleanor Ryan
Director, Financial Institutions Division
Financial Sector Policy Branch
Department of Finance Canada
James Michael Flaherty Building
90 Elgin Street
Ottawa, ON K1A 0G5
Email (fin.legislativereview-examenlegislatif.fin@canada.ca)

RE: Invitation for Comments, Second Consultation Paper “Potential Policy Measures to Support a Strong and Growing Economy: Positioning Canada’s Financial Sector for the Future”

Dear Ms. Ryan,

Chartered Professional Accountants of Canada (CPA Canada) welcomes the Department of Finance’s (the Department’s) review of Canada’s financial sector to ensure it effectively supports growth, and positions it to meet the federal government’s policy objectives. We recognize that Canada’s financial sector, supported by a legislative and regulatory framework, plays a critical role in economic stability and prosperity. As such, we are pleased to contribute to the consultation process to enhance this system through revisions to the framework.

The new Canadian designation, Chartered Professional Accountant (CPA), is now used by Canada’s accounting profession across the country. The profession’s national body, CPA Canada, is one of the largest in the world with more than 210,000 members, both at home and abroad. The Canadian CPA was created with the unification of three legacy accounting designations (CA, CGA and CMA). CPA Canada conducts research into current and emerging business issues and supports the setting of accounting, auditing and assurance standards for business, not-for-profit organizations and government. CPA Canada also issues guidance and thought leadership on a variety of technical matters, publishes professional literature and develops education and professional certification programs.

CPA Canada applauds the work and progress on this topic as exhibited in the Department’s second consultation paper titled “Potential Policy Measures to Support a Strong and Growing Economy: Positioning Canada’s Financial Sector for the Future” that was issued on August 11, 2017. We appreciate that this latest paper embodies many of the comments submitted by stakeholders, and would like to offer additional comments on two of the topic areas that have been raised: **Corporate Governance** and **Climate Risk Disclosure**. Our comments are not exhaustive, but rather, focused on key areas where we feel CPA Canada’s contributions are most relevant and can provide additional considerations for Finance. We hope our submissions will help guide the Department’s development of its policy, and support the future of Canada’s financial sector.



Corporate Governance

Promoting Diversity on Boards

CPA Canada recognizes the importance of diversity on boards in helping Canadian companies stay competitive in a global economy, while also navigating many forms of disruption. To succeed in this environment, companies need board members to represent a diverse range of relevant thoughts and experiences which can help them thrive in a modern, global economy.

CPA Canada appreciates the merits of implementing a “comply or explain” rule as proposed in Bill C-25, which promotes the participation of women on boards and in senior management.

However, with federally regulated financial institutions being one of Canada’s major economic engines, and an industry that leads the way in financial reporting and disclosure, CPA Canada encourages the Department to seize this opportunity to expand the proposed “comply or explain” **model to look beyond just gender, and include a broader range of diversity factors.**

Strengthening Shareholder Democracy

CPA Canada agrees that strengthening shareholder democracy is an important feature that should be embraced by financial institutions. However, a forced change in the election process for just one sector (financial institutions), may cause confusion in the market. Issues may arise from the fact that other publically traded companies’ elections will not necessarily conform to the Department’s proposed alignment with Bill C-25 on matters such as election of directors, mandating individual director elections and majority voting.

For example, investors will need to distinguish between which companies are governed by the Canada Business Corporations Act (CBCA), versus other Canadian statutes when determining how to exercise their rights.

CPA Canada encourages the Department to consider all potential impacts of the proposed legislative change, by undertaking further stakeholder consultations with relevant and knowledgeable parties. We believe there may be a number of unintended consequences that the Department should be considering, before deciding whether or not to move forward with the proposed alignment. For example, although not focused on financial institutions, Hansell LLP issued a paper on April 11, 2017, entitled “Majority Voting: Getting it Right,” which may help the Department garner a broader understanding of the various impacts the proposed changes could have.



Climate Risk Disclosure

Under the theme of “safeguarding a stable and resilient sector”, there is an opportunity for the Department to establish a federal financial sector framework that enables a stable transition to a low carbon, resilient economy. The G20 Financial Stability Board (FSB) and the Bank of Canada have stated that climate change poses material and pervasive risks to global financial stability if left unaddressed.^{1, 2} Given the federal government’s commitment to addressing climate change issues and the critical importance of the financial sector to the Canadian economy, it is important that the federal financial sector framework includes consideration of climate-related risks and opportunities.³

A recent CPA Canada study of regulatory filings by Canadian public companies, including financial institutions, found that the nature and extent of climate-related disclosures vary significantly.⁴ We also note that two of Canada’s Schedule A banks are already part of a consortium of global banks championing climate-related disclosure under the UNEP Finance Initiative.⁵

The Department is uniquely positioned to support enhanced climate-related disclosure by financial institutions by offering details on the types of disclosures required to enhance transparency for investors, lenders, insurers and other financial sector stakeholders in evaluating risk and allocating capital. As such, **we recommend the Department take an active leadership role by reinforcing their expectations around climate-related disclosures in the Canadian financial sector, and opening a direct dialogue with key stakeholders.**

¹ “Task Force publishes recommendations on climate-related financial disclosures,” Financial Stability Board, June 29, 2017:

<http://www.fsb.org/2017/06/task-force-publishes-recommendations-on-climate-related-financial-disclosures/>

² Timothy Lane, “The Thermometer Rising – Climate Change and Canada’s Economic Future,” Bank of Canada, March 2, 2017:

<http://www.bankofcanada.ca/2017/03/thermometer-rising-climate-change-canada-economic-future/>

³ Canada’s action on climate change: <https://www.canada.ca/en/services/environment/weather/climatechange/climate-action.html>

⁴ “State of Play: Study of Climate-Related Disclosures By Canadian Public Companies,” CPA Canada, 2017: www.cpacanada.ca/climatedisclosuresstudy

⁵ Task Force on Climate-Related Financial Disclosures, “Eleven UNEP FI Member Banks Representing over \$7 Trillion are First in Industry to Jointly Pilot the TCFD Recommendations,” July 11, 2017:

<http://www.unepfi.org/news/industries/banking/eleven-unep-fi-member-banks-representing-over-7-trillion-are-first-in-industry-to-jointly-pilot-the-tcfd-recommendations/>



Closing comments

CPA Canada appreciates the opportunity to provide our comments as part of the federal financial sector framework review, and we consent to the disclosure of our submission. We hope that our submission assists the Department in focusing on topics that are particularly important to Canadians, and we look forward to the next phase of this consultation process.

Sincerely,

A handwritten signature in black ink, appearing to read "J. Thomas".

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CPA Canada

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