

## **Corporate Knights submission to the Review the Federal Financial Sector Framework**

The financial sector has an imperative role to play if Canada is to meet its clean growth and climate change commitments made in Paris. Currently, while Canada's financial sector compares enviably with other G-20 countries in most areas; our financial legislative and regulatory framework is strikingly silent on topics of sustainable development. Over the course of the summer of 2016, Corporate Knights was commissioned by the [UNEP Inquiry into the Design of a Sustainable Financial System](#) (acting as Secretariat to the G-20 Green Finance Study Group) to undertake a high-level assessment<sup>1</sup> of the alignment between financial system regulators and sustainable development within a set of 24 countries. Canada ranked among the bottom quartile (full analysis available on request). Our recommendation is that Canada move to ensure that our financial sector provides world-class disclosure pertaining to the alignment of financial flows to our climate commitments by:

1. Building on the [Sustainable Finance Plan for EU](#) and the French model which requires certain financial actors to disclose their alignment with 2°C climate goals; and
2. Requiring reporting of the metrics on the second page of this submission;<sup>2</sup>

Better information on the state of sustainable financial flows is a foundational element to mobilizing capital at the scale and speed required to achieve sustainable development.

Despite a groundswell—most notably the Financial Stability Board Task Force on Climate-related Financial Disclosures--of international, public and private sector initiatives seeking to better understand and measure the role of financial sector's alignment with a sustainable economy, we still lack basic data on sustainable practices and financial flows for Canadian financial institution levels. Filling these basic information gaps would help:

- Enhance the financial sector's ability to manage the risks and opportunities inherent in the transition to a low carbon, sustainable economy; as the adage goes: What gets measured gets managed<sup>3</sup>;
- Leverage the power of positive feedback loops between policymakers and the financial sector to accelerate the transition to a sustainable economy in a relevant timescale. For instance, policymakers can monitor green and brown finance levels versus benchmarks at a national level to track potential capital misallocation and to inform environmental and financial policy decisions; and
- Reduce systemic risks, such as a Climate-Minsky moment, a sudden collapse in asset prices with knock-on effects that destabilize the economy.

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<sup>1</sup> Specifically, the ranking measured whether, and to what degree, sustainable development is explicitly embedded in the core mandates of the main financial sector regulators in a set of 24 countries, as well as sustainable development signals of leadership across financial system regulators.

<sup>2</sup> <http://www.unepfi.org/fileadmin/documents/PRI-FrenchEnergyTransitionLaw.pdf>

<sup>3</sup> [http://unepinquiry.org/wp-content/uploads/2016/09/2\\_Environmental\\_Risk\\_Analysis\\_by\\_Financial\\_Institutions.pdf](http://unepinquiry.org/wp-content/uploads/2016/09/2_Environmental_Risk_Analysis_by_Financial_Institutions.pdf)

The below table is illustrative of the types of metrics that significant Canadian financial institutions could be mandated to disclose (the metrics shaded in green are ones where it would be easiest to start from a data perspective).

### The Green Finance Menu of Metrics

Role	Green/brown exposures metrics menu	Example metric	Green taxonomy	Brown taxonomy	Benchmarks (country/2D)
All	FI Composite Score	x% (FI revenue-weighted average score on applicable metrics)			
Bank	Corporate lending	x% (\$renewable energy & climate-aligned/\$total energy & power & climate-relevant)	Possible	Possible	Feasible
Bank	Commercial equipment leasing	x% (\$energy efficient equipment/total equipment)	Unknown	Unknown	Unknown
Bank	Project finance	x% (\$renewable energy & climate-aligned/\$total energy & power & climate-relevant)	Possible	Possible	Feasible
Bank	Corporate real estate lending	x% (\$energy efficient real estate/\$total real estate)	Possible	Possible	Feasible
Bank	SME lending	x% (\$green SMEs/\$SMEs)	Possible	Possible	Feasible in some countries
Bank	Commercial leasing vehicles	x% (\$fuel efficient or electric vehicles/\$vehicles)	Possible	Possible	Feasible
Bank	Residential mortgages	x% (\$energy efficient homes/\$homes)	Possible	Possible	Feasible in some countries
Bank	Consumer lending: automotive	x% (\$fuel efficient vehicles/\$vehicles)	Possible	Possible	Feasible
Bank	Consumer lending: white goods	x% (\$energy efficiency leaders/\$energy efficiency laggards)	Possible	Possible	Feasible
Bank	Consumer lending: credit cards	x% (\$green incentives cards/\$cards)	Unknown	Unknown	Unknown
Bank	Securities underwriting debt	x% (\$renewable energy & climate-aligned/\$total energy & power & climate-relevant)	Possible	Possible	Feasible
Bank	Securities underwriting equity	x% (\$renewable energy & climate-aligned/\$total energy & power & climate-relevant)	Possible	Possible	Feasible
Bank	Securitization ABS and MBS	x% green securitization (PV, LEVs, energy eff. mortgages)/\$total securitization)	Possible	Possible	Feasible
Invest	Listed equities	x% (\$renewable energy & climate-aligned/\$total energy & power & climate-relevant)	Possible	Possible	Feasible
Invest	Bonds	x% (\$renewable energy & climate-aligned/\$total energy & power & climate-relevant)	Possible	Possible	Feasible
Invest	Real estate	x% (energy efficient real estate/total real estate)	Possible	Possible	Feasible
Invest	Infrastructure	x% (\$renewable energy & climate-aligned/\$total energy & power & climate-relevant)	Possible	Possible	Feasible
Invest	Private equity	x% (\$renewable energy & climate-aligned/\$total energy & power & climate-relevant)	Possible	Possible	Feasible
Invest	Project finance	x% (\$renewable energy & climate-aligned/\$total energy & power & climate-relevant)	Possible	Possible	Feasible
Insure	Auto insurance premiums (type)	x% (\$fuel efficient or electric vehicles/\$ total vehicle)	Possible	Possible	Feasible
Insure	Auto insurance premiums (use)	x% (\$pay-as-you-drive/\$ total vehicle)	Possible	Possible	Feasible
Insure	Home insurance premiums	x% (\$energy efficient homes/\$ total homes)	Possible	Possible	Feasible
Insure	Corporate auto insurance premiums	x% (\$fuel efficient vehicles/\$ total vehicles)	Possible	Possible	Feasible
Insure	Commercial building insurance premiums	x% (\$energy efficient real estate/\$ total real estate)	Possible	Possible	Feasible
Insure	Life insurance premiums	x% (\$healthy lifestyles/\$total life insurance)	Possible	Possible	Feasible
Insure	Health insurance premiums	x% (\$healthy lifestyles/\$total health insurance)	Possible	Possible	Feasible
Insure	Commercial insurance premiums	x% (\$renewable energy & climate aligned/\$total energy & power & climate-relevant)	Possible	Possible	Feasible
Insure	Property re-builds/replacements	x% (\$green re-builds or replacements/\$total re-builds or replacements)	Possible	Possible	Unknown