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To Whom It May Concern:

Thank you for the opportunity to comment on draft Guideline B-15: Climate Risk Management (the "Guidance"). We are a coalition of organisations working at the intersection of climate and finance and are uniquely placed to provide input. Overall, we are encouraged that the Office of the Superintendent of Financial Institutions (OSFI) is starting to act to address the growing financial risk of the climate crisis. We are particularly encouraged that OSFI's Guidance includes reporting of Scope 3 emissions.

The Guidance arrives at a time when people around the world are suffering due to extreme heat, climate-enhanced wildfires, and deadly flooding. Physical risk is well and truly upon us, and is seriously disrupting the Canadian and world economy.

The draft also arrives at a time when studies show how Canada's financial sector is heavily exposed to transition risk given the carbon-heavy nature of our economy. For example:

- An academic study in the journal *Nature* estimates that US$1.4 trillion in stranded assets could occur in the fossil fuel industry globally as we take climate action, with about US$100 billion of physical stranding in Canada, and 57% of stranded assets ultimately owned by OECD investors, including Canadian ones.
- Carbon Tracker estimates that Toronto is one of the four financial centres with the highest embedded emissions over which investors have influence.
- OSFI's own Climate Scenario Analysis Pilot undertaken with the Bank of Canada shows the probability of default by the oil and gas industry increasing by over 150% by 2050 in all modelled scenarios.

- In its 2022 Financial System Review, the Bank of Canada notes the high level of uncertainty related to the transition to the low-carbon economy, exacerbated by the war in Ukraine which could result in over-investment in fossil fuels in the short term, leading to more stranded assets. It states: “Overall, the risk of a quick repricing of assets exposed to climate change has increased.”

Ultimately, we are at an inflection moment with regards to the climate crisis and the global financial system, which some call the equivalent to a “Climate Lehman moment.”

While this draft Guidance represents the most ambitious proposal that we have seen from a Canadian regulator to date, it still falls well short of requiring action at the scale and pace commensurate with the challenge. Below is our input, which includes a number of proposals to strengthen the Guidance.

As a more general principle, we believe that climate risk management and alignment ultimately needs to be regulated, through binding legal standards rather than non-binding guidance. Due to the need for swift action stronger guidance should be issued immediately. This will assist federally regulated financial institutions to make operational and system changes to align with climate risk management requirements. These standards should then be made legally binding and enforceable to ensure high levels of compliance, accountability and legislative scrutiny.

1) **Failure To Address Double Materiality and Systemic Risks**

To have integrity the Guidance must approach climate risk management through a double-materiality lens. Double materiality recognizes both the climate risks to financial institutions and the climate implications of the financial institutions’ activities.

By focusing only on single materiality, the Guidance fails to address the climate risks that the financial system itself is fostering. OSFI’s draft Guidance begins:

> Climate change and the global response to the threats it poses have the potential to significantly impact the safety and soundness of federally regulated financial institutions (FRFIs), and the financial system more broadly.

This framing encapsulates the single materiality approach, which concerns itself only with the impacts of the climate crisis on financial institutions. This narrow approach shapes the rest of the Guidance and what is – and isn’t – considered by way of policy response.

This single materiality approach is destined to fall short. It fails to address the systemic risk that financial institutions themselves engender by enabling higher emissions and more extreme climate impacts. Single materiality does not address the actual risk to the Canadian economy.

Adopting a double materiality approach would acknowledge the role of the regulator in creating the conditions whereby financial institutions either add more fuel to the fire – our current reality – or reduce that fuel. For example, Canada’s five largest banks have financed over US$910 billion of fossil fuel activity since the Paris Agreement, including an acceleration of this financing from 2020 to 2021.

Once OSFI acknowledges double materiality, it would pursue policy responses proportionate with the crisis, including policies such as:

a. **Differentiated risk and capital requirements**.

   Fossil fuel activity should be subject to higher risk factors and capital requirements to reflect the higher risk this activity imposes on the financial system and to change the incentive structure that currently encourages financial institutions to foster this activity. The Basel Committee on Banking Supervision recently proposed a 'one-for-one' capital requirement for bank holdings of crypto assets due to the high risks associated with such investments. OSFI has responded by requiring that exposure to crypto assets be deducted from banks' core capital and assigning them no collateral value. The vast and potentially catastrophic risks associated with new fossil fuel expansion and exploration demands similar treatment.

b. **Activity prohibitions**.

   OSFI is a member of the Network for Greening the Financial System, which in its May 2020 guidance at page 51, states:

   > if supervisors find that the level of risk driven by climate-related and environmental factors is excessively high, they could require institutions to reduce such risks by applying measures such as […] limiting or prohibiting them from carrying out certain categories of activities.

   For example, lending or investing in coal beyond 2030 in developed countries is inconsistent with any reasonable net zero scenario, making this a strong candidate for a prohibited category of activity.

Overall, by focusing only on single materiality, OSFI will fail to address the climate risks that the financial industry is fostering, boomeranging back on itself.

2) Lack of Specific Standards makes the Guidance Unenforceable

OSFI's commitment to "principles based" guidance means that outside of the annexes, there are no specific standards to hold financial institutions accountable. This lack of specific standards makes robust enforcement impossible and undermines the usefulness and comparability of the information that financial institutions are being asked to disclose.

The Bank of Canada has highlighted the importance of a "standardised and systemic approach" to climate risk disclosure. With no metrics, financial institutions can claim to be following the Guidance without taking the action necessary to align with it. For example, many Canadian financial institutions have made net-zero commitments without changing their portfolio investments. OSFI must add specific standards and metrics to B-15 to promote accountability.

Principle 1 states that financial institutions should have Climate Transition Plans, but doesn't specify what metrics make up a *credible* plan. OSFI needs to clarify expectations about the minimum content of Climate Transition Plans, drawing on the strongest elements of the various international best practices. Such elements would include: comprehensive financed emissions disclosure, absolute short and medium-term emissions reductions targets in line with limiting warming to 1.5˚C, quantifiable decarbonization strategies, and accounting for a just transition including respect for Indigenous Rights.

Principle 2 states that financial institutions should have appropriate governance, but does not address the conflicts of interest that many institutions foster by choosing Board members with ties to polluting industries. Financial institutions should be required to link Senior Management compensation to achievement of climate goals and publish that policy along with other key disclosures.

Principle 6 states that financial institutions should have "sufficient" capital and liquidity buffers for climate-related risks, but does not specify what "sufficient" means, nor does it calibrate this against the various levels of transition risk facing Canadian financial institutions with large – and sometimes growing – exposures to the fossil fuel industry.

The Chapter 2 disclosure principles suffer from the same lack of specificity, which is somewhat remedied by the inclusion of expectations in the annexes.

With regards to where and when climate disclosure takes place, we advocate that at a minimum it be included in the financial institution's financial reports, reflecting the materiality of this information, and made available at least immediately coinciding with the end of the fiscal year.

3) Feedback on Disclosure Annexes

We welcome OSFI's inclusion of the TCFD framework and the International Sustainability Standards Board's Exposure Draft on Climate Related Disclosures, but reiterate that these approaches only consider "single materiality." The proposed disclosure requirements from the Canadian Securities Administrators are too weak to be credible.

We welcome the reference to calculating Scope 3 GHG emissions from loans and investments. The Partnership for Carbon Accounting Financials (PCAF) or equivalent is an appropriate standard. We request that OSFI also requires calculating facilitated emissions based on the upcoming PCAF standard. Facilitated emissions from underwriting can exceed financed emissions and need to be measured and managed. Banks like TD and CIBC have begun measuring and disclosing facilitated emissions.

In the Disclosure Category Strategy, Element c OSFI asks to describe the resilience of strategy to various scenarios "including a 2 degree or lower." This must be modified to specify a 1.5-degree scenario. The Net-Zero Banking Alliance (NZBA), also referred to by OSFI in the draft guidance, asks members to align with 1.5 degrees.

Referencing a two degree scenario disincentivizes ambition by discrediting the likelihood of achieving the 1.5 degree temperature goal. Two degrees of warming is more disastrous for human civilization with, for example, three times more people being exposed to unlivable heat waves. Allowing financial institutions to determine their own temperature goal will also undermine market standardisation and comparability, which should be one of the main aims of the guidance.

In the Disclosure Category Metrics and Targets OSFI needs to specify what *adequate* metrics and targets are. Canada's financial institutions have an emerging dog's breakfast of climate targets that are neither aligned with science nor consistent, creating confusion for investors and the public. Targets must be absolute reductions and consistent with climate science to have any hope of addressing climate risk.

In the Disclosure Category GHG Emissions, Disclosure Element a iii regarding Scope 3 emissions, it should be made clear that this includes accounting for clients/investees Scope 3 emissions where material, which is required for example by the NZBA.

Conclusion

We welcome OSFI's commitments in its 2022-2025 Strategic Plan to stronger Stakeholder and Partner Engagement, including assessing opportunities to be more transparent. To increase transparency, we recommend that OSFI follow others like the Canadian Securities Administrators and publish all public input on consultations, such as this letter. This would increase public awareness of which entities are advocating which positions and how that influences OSFI's ultimate positions.

We further note that the Strategic Plan envisions stronger consultation, and we request that this be extended equally to the NGO sector.

Thank you again for the opportunity to comment on the draft Guidance. We look forward to a stronger set of actions by OSFI to regulate the growing risk to our financial system from the climate crisis.

Yours sincerely,

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