



# Report Preview: Roadmap to a Sustainable Financial System in Canada

**Full Report to be launched Mid-October**

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**September 13, 2022**



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# Executive Summary

The Paris Agreement calls for “making finance flows consistent with a pathway towards low greenhouse gas emissions and climate-resilient development.” For Canada to meet its climate commitments, the financial sector must align with this commitment and ensure it is not accelerating or contributing to global warming. We are already seeing the damages climate change causes on economies, ecosystems, and society as whole. Finance and investments must shift away from areas that exacerbate the climate crisis and pivot into solutions for resilience. Although the strategies of financial institutions will differ, the outcome and trajectory must be the same: finance must align with limiting global warming to 1.5°C.

Canada is party to the Paris Agreement and committed under Canadian law to achieve net-zero greenhouse gas emissions by 2050 through the Net-Zero Emissions Accountability Act. But our financial policies and regulations still do not integrate or reflect these climate commitments.

Ecojustice, Environmental Defence, and Shift: Action are publishing a report titled *Roadmap to a Sustainable Financial System in Canada*. It identifies recommendations for the key financial policies needed to align Canada’s financial sector with a safe climate and stable economy. The Roadmap’s recommendations are grounded in a few principles: focusing on the impacts from the financial sector, not just the risks to it; respecting Indigenous rights; prioritizing climate equity and justice; and advancing climate adaptation and biodiversity as well as mitigation. While the focus is on federal financial policy, we suggest provincial financial policies follow the same trajectory.

Our cornerstone recommendation would require federally regulated financial institutions, pension plans, and financial crown corporations (“institutions”, collectively) to devise and implement a Credible Climate Plan. This would ensure institutions set targets to align their investments with 1.5°C, implement policies and procedures to deliver on these objectives, and report in their annual disclosures to the regulator about progress against their emission reduction targets. A Credible Climate Plan would prioritize not only transparency and disclosure, but action. It would formalize, standardize, and extend commitments that many Canadian financial institutions have already voluntarily made (like through the GFANZ initiatives) – leveling the playing field while ratcheting up shared ambition.

## Guiding Key Principles

**Respect**  
Indigenous  
Rights,  
Sovereignty and  
Governance

**Prioritize**  
Climate Equity  
and Justice

**Advance**  
Adaptation and  
Biodiversity,  
not just  
Mitigation

**Focus on**  
Climate  
Impacts, not  
just Risks

## Essential Elements of a Credible Climate Plan



### TARGET

1. Set targets that align the financial institution's activities with limiting warming to 1.5°C

- 1.1 Long-term target of net zero by 2050 at the latest
- 1.2 Interim targets set in five years starting with 2025 and 2030
- 1.3 Long-term and interim targets to set trajectory consistent with:
  - The global carbon budget of available emissions to keep global warming to 1.5°C with no/low overshoot.
  - Emissions to peak by 2025.
  - Maximum effort toward or beyond a fair share of the 50% global reduction in CO<sub>2</sub> emissions by 2030.
  - Beating Canada's NDC and legislated GHG targets in view of principles of equity and global fair share.
  - Mitigation pathways from credible sources e.g., IPPC, IEA.
- 1.4 All targets to encompass scope 1-3 emissions
- 1.5 All targets to encompass all greenhouse gases, including short-lived climate pollutants<sup>1</sup>.
- 1.6 All targets to be expressed as absolute emissions reductions (as opposed to other metrics such as emissions intensity)



### PLAN

2. Implement policies and procedures to deliver on targets

- 2.1 Commit to immediate action (within a timeframe of months) to align with currently available science, including the IEA's conclusions that fossil fuel expansion and thermal coal are incompatible with its 1.5°C pathway.
- 2.2 Set out key policies and procedures, including:
  - Scaling up investments in green and nature-positive investment areas
  - Prioritising emissions reductions ahead of removals and offsets
  - Policy for managed phase out of high emitting assets.
  - An engagement Escalation Policy
  - Aligning executive compensation schemes with objectives of the CCP
  - Aligning lobbying activities with the objectives of the CCP
- 2.3 Explain how policies and procedures will achieve targets, using quantitative and qualitative analysis, and explaining key assumptions and methodologies.
- 2.4 Include a timeline for implementation of key actions, policies and procedures.
- 2.5 Explain how CCP is aligned with organization's overall strategy, including financial plans.
- 2.6 Explain how the targets and plan integrate UNDRIP and specifically the principle of Free, Prior and Informed Consent
- 2.7 Actions to address data limitations.



### REPORT

3. Report to regulators annually on progress against targets

Annually report (through statutory disclosures e.g., annual reports or financial statements) on:

- 3.1 Climate-related risks and opportunities
- 3.2 Progress towards interim and long-term targets in terms of quantified, absolute emissions reductions.
- 3.3 Key challenges experienced and positive action to address them (e.g., data gaps, implementation delays, non-aligned investments)

<sup>1</sup> To include all those greenhouse gases accounted for in Canada's national greenhouse gas emissions inventory: including carbon dioxide (CO<sub>2</sub>), methane (CH<sub>4</sub>), nitrous oxide (N<sub>2</sub>O), perfluorocarbons (PFCs), hydrofluorocarbons (HFCs), sulphur hexafluoride (SF<sub>6</sub>) and nitrogen trifluoride (NF<sub>3</sub>).

In addition to requiring all federally regulated institutions to devise, implement and report on Credible Climate Plans, the *Roadmap* recommends other key policy actions. These include having an open process for a Green Taxonomy that aligns with 1.5°C, clarifying fiduciary duty, and strengthening advertising rules to deter greenwashing.

Canada needs to advance clear policies to protect the stability of our financial system and the health of our shared climate. Finance must align with limiting global warming to 1.5°C. Canada has a reputation for a sound and well-regulated financial system – let’s make sure this is true for how finance relates to climate, too.

### Key Policy Recommendations

Require **Credible Climate Plans** from federally regulated financial institutions, pension plans, and crown corporations, and require annual reporting of Credible Climate Plans to regulators

**Expand climate scenario analysis** and stress testing from the BOC and OSFI

**Amend capital requirements** to reflect climate-related Risks

Place **investments and lending limits** on assets that do not align with 1.5°C

Implement **Net-Zero Emissions Accountability Act Section 23**

An inclusive process for a **Green Taxonomy** that aligns with 1.5°C

**Strengthen advertising regulations** to deter greenwashing

**Empower consumers** to enforce anti-greenwashing rules

Clarify **fiduciary duty**



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**A REPORT BY:**



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