



Pre-Budget Submission to Standing Committee on Finance - 2020 Federal Budget

Toronto Finance International

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Recommendations:

Recommendation 1: That the Government of Canada build off of the strength of the report from the Federal Expert Panel on Sustainable Finance (“Expert Panel”) to recognize the importance of Sustainable Finance in preparing for the transformative transformation taking place in Canada and around the world as a result of climate change.

Recommendation 2: That the Government of Canada work with Toronto Finance International to create the Canadian Centre for Sustainable Finance (CCSF) which will develop Canada into a global hub for sustainable finance. A CCSF would be in response to a recommendation by the Expert Panel to establish a standing Canadian Sustainable Finance Action Council (SFAC) to advise and assist the federal government in implementing the Panel’s recommendations. The CCSF could serve as the secretariat to the SFAC.

Recommendation 3: That the Government of Canada work with the financial sector and academia to implement the Expert Panel’s recommendation to establish the Canadian Centre for Climate Information and Analytics (C₃IA), which would serve as an authoritative source of climate information and decision analysis.

Recommendation 4: That the Government of Canada work with the financial sector to accelerate Canada’s supply of liquid green and transition-linked fixed income products and help set a global standard for transition-oriented financing.

Toronto Finance International

Toronto Finance International (TFI) is a public-private partnership between Canada's three levels of government, the financial services sector and academia. TFI's mission is to lead collective action that drives the competitiveness and growth of Toronto's financial sector and establish its prominence as a leading international financial centre.

TFI's work spans from helping global financial services firms expand their operations in the Toronto Financial Centre, to working with the financial community, government and academia to foster a globally competitive sector which drives economic growth in Canada.

Sustainable Finance

Sustainable Finance can be defined as capital flows, risk management activities, and financial processes that assimilate environmental and social factors as a means of promoting sustainable economic growth and the long-term stability of the financial system.¹

Currently there is a concerted focus by several countries around the world to translate climate goals into transformative economic policies and practices. These jurisdictions are working with financial industries and businesses to accelerate sustainable finance in an aggressive bid to stake out a competitive advantage.

Globally, it is estimated that the Paris Agreement on climate change will require over \$100 trillion in global investment over the next decade. The total necessary investment for Canada in that timeframe is estimated at more than \$2 trillion. Investment of this magnitude will require the financial sector to play an important role if Canada is to meet its climate change objectives.

Canada is fortunate to have one of the most stable financial systems in the world with a well-earned reputation for good governance, risk management, and sound regulation. This system has a critical role to play in delivering the financing ingenuity and capital flows required to execute Canada's climate change objectives.

Engaging the financial sector and the private sector more broadly will be a critical key to success in the transition to a low-carbon economy. The establishment of an organization to drive coordination, collaboration, and action in developing Canada's expertise and capacity in sustainable finance would serve to accelerate the country's progress in meeting climate change objectives. This organization would bring together leaders and expertise from the private and public sector and follow successful models that have been developed in the UK, France, and Australia.

¹ [The Interim Report of the Expert Panel on Sustainable Finance. Government of Canada.](#)

Canada's Expert Panel on Sustainable Finance

The Expert Panel on Sustainable Finance, chaired by the Dean of the University of Toronto's Rotman School of Management, Tiff Macklem, was established in April 2018 by the federal Ministers of Environment and Climate Change and Finance. The Panel was tasked with consulting the private sector and the federal government and drafting a report to Ministers outlining:

- global trends in sustainable finance, including climate-related risk disclosure;
- roles and responsibilities for sustainable finance in Canada;
- opportunities and challenges relating to sustainable finance and climate-related risk disclosure in Canada; and
- recommendations of potential next steps the Government of Canada may wish to consider within its area of jurisdiction.

The Expert Panel delivered its final report on June 14, 2019. The final report contains 15 recommendations aimed at aligning mainstream financial activities with the transition to a competitive low-emissions, climate-smart economy. The 15 recommendations contained in the final report fall under three pillars:

I. The Opportunity

Canada should put forward a renewed long-term vision for its transition, with focused policies to help businesses and investors of all sizes effectively respond to the economic opportunity.

II. Foundations for Market Scale

Canada's public and private sectors should invest in the essential building blocks needed to scale the Canadian market for sustainable finance to mainstream status.

III. Financial Products and Markets for Sustainable Growth

Recognizing Canada's unique economic make-up, the Panel has identified several opportunities to develop and scale up market structures and financial products that would have particular impact in facilitating Canada's transition and adaptation.

Canadian Centre for Sustainable Finance

A September 2018 EY/Corporate Knights report entitled [“Capitalizing on Sustainable Finance: A growth opportunity for Toronto’s financial sector”](#) assessed the opportunity for Canada to develop into a leading global hub for sustainable finance. Through extensive research and engagement with stakeholders in the private and public sector the report concluded that there was a need for greater analysis and coordination on this important and growing opportunity for Canada. Furthermore, there was a recognition that the financial sector could serve as a critical engine behind the transition to a low-carbon economy.

A key recommendation of the EY report was the establishment of a new Sustainable Finance Centre in Canada to: 1) be the central convener of the financial sector and key stakeholders in the private, public, and academic sectors, and 2) to serve as a catalyst for the development and growth of expertise and capacity in sustainable finance.

Also, the Expert Panel on Sustainable Finance recommended the establishment of a standing Canadian Sustainable Finance Action Council (SFAC) to advise and assist the federal government in implementing the Panel’s recommendations. A Canadian Centre for Sustainable Finance (CCSF) could serve as the secretariat to the SFAC.

Both reports from the Expert Panel and EY fully recognize the importance of the creation of a sustainable finance centre in Canada and thus TFI is seeking to work with the federal government to facilitate its creation.

Goals

TFI envisions the mandate of the CCSF as being to serve as the convener of the financial sector and key stakeholders in the private, public and academic sectors, and to serve as a catalyst to drive coordination, collaboration and action in developing Canada’s expertise and capacity in sustainable finance.

This organization would bring together leaders and expertise from the private and public sector with the goals of:

Driving Engagement and Leadership in Sustainable Finance in Canada

- Building engagement and leadership on the development and execution of Canada’s national strategy for growth in sustainable finance

National Convener

- Convening stakeholders to collaboratively address key challenges and opportunities in developing expertise and capacity in sustainable finance in Canada

Global Representation

- Representing Canada in the global dialogue on sustainable finance and promoting Canada’s brand as a leading global hub for the provision of sustainable financial and professional services

Examples of Key Priorities

Common Taxonomy for Sustainable Finance

In the quickly emerging global green and sustainable finance markets, many Canadian sectors are at risk of being excluded from Green and Transition financial products and services, such as Green Bonds and Green Loans.

CCSF will serve as a central hub for all stakeholders to ensure the development of a national standard for “Green and Transition Finance” and that these standards are represented in the development of any international sustainable finance standards.

Task Force on Climate-related Financial Disclosures

Many Canadian companies and public sector entities are now taking steps to implement the recommendations of the Financial Stability Board’s Task Force on Climate-related Financial Disclosures (TCFD).

By supporting these standards, CCSF will aim to raise corporate and other stakeholder awareness of the importance of tracking, managing and disclosing material climate-related risks and opportunities in a consistent and comparable way.

Partnerships with Key Domestic and Global Organizations

CCSF would establish partnerships and work with domestic and international organizations such as the UN International Network of Financial Centres for Sustainability, Climate-KIC, the Pan-Canadian Expert Collaboration, and key academic institutions.

Need for Reliable and Consistent Climate Data

The need for quality climate data is an important component in developing a strong ecosystem for sustainable finance. As noted by the Expert Panel:

“Access to reliable and consistent climate data - and the ability to turn that data into relevant financial insight - is essential for sustainable business decisions. The abundant scientific climate change data available today is hosted in disparate locations and formats. Access is difficult and costly for large institutions, and often prohibitively expensive for smaller ones. Tools to translate that data into tangible impacts to a business, city or portfolio are virtually non-existent. As a result, much of the financial system is just beginning to understand how to assess, measure, and manage climate risk and opportunity.”²

As noted by the Expert Panel, access to reliable data would inform a wide array of activities, including but not limited to: insurance, debt and equity underwriting decisions; community and infrastructure development; asset and risk management; public policy; innovation;

² Final Report of the Expert Panel on Sustainable Finance. Government of Canada.

taxonomy development; financial disclosure; and financial, consulting and legal support services. It would also free up private sector capacity for more proprietary, value added analysis.

Thus, in order to meet the need for quality climate data, the Government of Canada should work with the financial sector and academia to implement the Expert Panel's recommendation to establish the Canadian Centre for Climate Information and Analytics (C₃IA), which would serve as an authoritative source of climate information and decision analysis.

Need for Transition-Oriented Financing

As noted by the Expert Panel, Canada is a resource-rich economy with a world-class financial sector and has a unique opportunity to work with global partners to create a standard for fixed income instruments specifically tailored to climate-smart transition activities. As of now, such activities are not compatible with international green finance standards.

Transition-linked products could offer favourable economics on the basis of successful achievement of threshold-level improvements in environmental impact and asset performance with respect to energy efficiency. Transition-linked products have the potential to bridge the gap between climate conscious investors and resource companies, broadening the investor base and providing capital to invest in proven emissions-reducing technologies.

Canada could begin by adopting an international green taxonomy while at the same time working either independently, or with other countries with similar resource endowments, to develop supplemental coverage for industry transition activities that are essential to Canada but not captured under the international taxonomy.

The Government of Canada should work with the financial sector to accelerate Canada's supply of liquid green and transition-linked fixed income products and help set a global standard for transition-oriented financing.

Conclusion

The development and growth of sustainable finance is an important step in Canada maintaining a globally competitive economy.

TFI believes Canada has the opportunity to be at the forefront of the transformation that is taking place in the Canadian and global economies as a result of climate change. We believe that implementing the above recommendations will help position Canada and its financial sector as global leaders that can fully benefit from this transformation and allow us to make important contributions in the global climate change dialogue.

TFI is prepared to work with the federal government in implementing the above recommendations and thanks the Committee for the opportunity to provide this submission.