Global Risk Institute in Financial Services

Climate-related financial disclosure in the Canadian financial sector

A three-year progress report

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GLOBAL RISK INSTITUTE

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Foreword by Sonia Baxendale

The Global Risk Institute in Financial Services has undertaken this three-year progress report on climate-related financial disclosure practices among financial firms in Canada because of the unique and essential role the sector plays in mitigating climate risk and accelerating opportunities across the economy.

Reporting and transparency is as much about leadership and strategy as it is about the practicalities of capturing performance data. Now is the time for financial leaders to ensure their firms have a vision for navigating climate change and the complex physical and transition risks that continue to manifest against a backdrop of economic, political and social uncertainty.

Climate risk assessment is the difficult work of questioning all that we know about credit analysis, asset valuation and earnings projections. To make it even more challenging, it must be done in step with innovations occurring in data and methodology as these fields adjust to include climate risk parameters. But these should not be reasons to delay getting started.

Climate change related risk is both a competitive and regulatory issue. The landscape is changing dramatically with announcements from the United Kingdom and New Zealand on mandatory reporting for listed companies, and the evolving political landscape in the United States. As the world moves toward COP 26 in Glasgow in 2021, the next global conversation on climate change, there will be increasing expectations and our Canadian financial sector must be ready.

Canada has long been a great place to invest. But as the world shifts to a low carbon economy we need to ensure that our natural resource-based economy is an asset not a liability. We have all the right ingredients - ample natural endowments that can be harnessed for clean energy and carbon capture, highly skilled professionals in the primary sector, and a sophisticated financial system to help make this a reality. The Canadian financial sector must proactively support businesses and households in this transition.

In this fast-moving environment, I hope this report inspires those firms that have not yet taken steps to assess and report the financial implications of climate risk to get started, and those firms who are already solidly on the path to continuously push forward.

In the end, facing climate change head on and taking action now is the right thing for future generations.

Sonia Baxendale
President and CEO
Global Risk Institute in Financial Services

Executive Summary

This study examines trends in climate-related financial disclosure among 58 financial firms in Canada including banks, pensions, insurance, financial Crowns, and credit unions over three reporting cycles (2017, 2018, 2019). The Financial Stability Board (FSB)'s Task Force on Climate-related Financial Disclosure (TCFD) introduced recommendations for reporting in 2017 (the TCFD Recommendations), providing a framework for companies to disclose their material climate-related governance, strategy, management, and metrics and targets. This study assesses progress toward alignment with the TCFD Recommendations, and by extension, provides some insight as to the state of climate risk governance and management among Canadian financial firms.

Key highlights:

- **Uptake:** Of the 58 financial firms surveyed, there were a total of 25 publicly disclosing in alignment with the TCFD Recommendations in 2019, including the major banks and major pension funds. There was a 40 per cent increase in the number of firms disclosing since 2017.
- **Alignment:** 44 per cent of those disclosing included TCFD Recommendation-aligned information in annual reports, up from 12 per cent in 2017.
- **Governance:** Every disclosing firm indicated that the board oversees climate risk, with the risk committee most commonly cited as the lead. The Chief Risk Officer is the most commonly cited executive responsible for climate risk.
- **Strategy:** Nearly 80 per cent of disclosing firms reported that they were assessing risk over the short, medium and long terms, and of those, 70 per cent disclosed the specific risks they were facing in each of these time horizons.
- **Scenarios:** The number of firms reporting that they have undertaken climate risk scenario analysis has more than tripled from seven to 24 over the 2017-2019 time period.
- **Risk Management:** 72 per cent of firms had disclosed that they undertook a materiality assessment for climate risk, up from 44 per cent two years earlier.
- **Metrics and Targets:** In 2019, 72 per cent of firms disclosed metrics related to portfolios and sustainable finance, a 35 per cent jump since 2017.

Rapidly evolving policy and investor expectations

Since they were released in 2017, more than 1,500 organizations worldwide have expressed their support for the TCFD Recommendations, including 47 Canadian financial firms.[i] In Canada, the following commitments aligned to the TCFD Recommendations have been made:

- The Canadian Expert Panel on Sustainable Finance called for the recommendations to be implemented in Canada;
- The Canadian Securities Administrators issued *CSA Staff Notice 51-358 Reporting of Climate Change-related Risks;*
- The Bank of Canada (BOC) recognized climate change as a risk to financial stability and noted the lack of consistent disclosure by companies on climate change is a source of risk to the financial system;
- The Office of the Superintendent of Financial Institutions Canada (OSFI) has announced that it will be publishing a discussion paper early in 2021 that will look at climate change related risk from the prudential perspective;
- BOC and OSFI jointly announced plans for a pilot project to use climate-change scenarios to better understand the risks to the financial system related to a transition to a low-carbon economy — a small group of institutions from the banking and insurance sectors will participate voluntarily in the project; and
- The Federal government made TCFD disclosure a requirement for any firm accessing the Large Employer Emergency Financing Facility (LEEFF) program, part of its COVID-19 relief measures.

Our three-year progress report reveals that there are high levels of transparency about governance and strategy from reporting firms in Canada. Signals show that the top of the house is engaged, and financial firms are progressing toward the integration of climate risk into enterprise risk management.

However, as a general trend, disclosure about risk management, metrics and targets is less complete. The lack of standardization, and use of multiple reporting channels by the same firm, means access and utility of data for individual assessment and sector wide comparison by analysts and other stakeholders is cumbersome.

In the absence of more specific reporting guidance and indicators aligned with the higher level TCFD Recommendations, it is difficult to fully understand the depth, quality and nature of engagement the board has on climate risk.

i TCFD supporter snapshot, accessed November 14, 2020. https://www.fsb-tcfd.org/support-tcfd/

A proposed path forward

To accelerate the road to adoption, the Global Risk Institute has identified a proposed path forward for the financial sector. Further steps to increase the quality and quantity of reporting would require action from policymakers, firms and investors alike.

Policymakers:

- Plainly articulate a roadmap for the adoption of the TCFD Recommendations by Canadian firms, outlining what is expected and by when.
- Clarify what is mandatory and what is voluntary for both large companies and smaller ones.
- Provide the foundational elements needed by firms to accelerate climate risk assessment and management, including data, appropriate methodologies and other clear expectations for how scenario analysis should be conducted.

Firms:

- Boards should deepen their involvement in how climate risk is incorporated into corporate planning; and discussions on how climate risk and opportunities may impact future business plans should be fully integrated into relevant strategic and risk oversight discussions.
- Consistently structure climate-related financial disclosures so progress can be shown and assessed annually, helping analysts and investors easily access information, and know where and when to expect it (e.g. Consider disclosing climate-related risks and opportunities in one report or using a centralized index).
- Balance reporting on opportunities and operations with information about risk and the expected impacts of climate change on business and strategy.
- Continue to innovate and improve scenario analysis and other tools to assess the complex and interconnected layers of climate risk and opportunity, looking at both physical and transition risk, and how this will impact the business over the short, medium and long term.
- Set and report on metrics and targets that are science-based and aligned with net-zero carbon emissions.

Investors:

- Engage with senior executives and boards to encourage climate disclosure that is in alignment with TCFD Recommendations and explain why and how the data is used.
- Work with issuers to help increase understanding of climate risk and encourage commitment to emissions reductions and other actions toward net-zero.
- Clarify expectations and needs in investment policies and guidance, and join forces with other investors to convey clear and consistent messages about reporting needs.

1. Introduction

Canada has the means and the opportunity to be among the leaders in the transition to a low carbon economy and an innovator in the global market for green and sustainable growth. In order to get there, the financial services sector must be at the forefront of investment and influence needed to transform the economy as we know it. Conversely, if climate change and the transition to a low carbon economy is not managed well, this could bring about new forms of risk and threaten the very stability of the financial system which is so vital to a thriving economy and society.

This report provides a snapshot of the dynamic and fast evolving approach to climate risk and sustainable finance in the Canadian financial industry through the window of transparency and public reporting.

Industry as well as government, investors and other stakeholders are proactively evolving their response to climate change as they understand more about the risks and opportunities, and this process is expected to remain dynamic and fast changing over the coming decade. This report sheds light on where the Canadian financial industry is today and will help financial firms understand how they are doing relative to others in the industry.

"Measuring, pricing and managing climate risks will require an all-hands-on-deck approach—involving the private sector, the public sector and the research community."

– **Tiff Macklem**
Governor, Bank of Canada
GRI Summit 2020

1.1 Task Force on Climate-related Financial Disclosures

The objective of the study was to track trends in climate-related financial disclosure by Canadian financial firms over three reporting cycles (2017-2019).

To help identify the information needed by lenders, underwriters, asset owners and asset managers to appropriately assess and price climate-related risks and opportunities, the FSB established the TCFD. In 2017, the TCFD issued its final report containing the TCFD Recommendations that are designed to solicit consistent, decision-useful, forward-looking information on the material financial impacts of climate-related risks and opportunities, including those related to the global transition to a lower-carbon economy. These disclosure recommendations are intended for use in mainstream financial filings and to support the consideration of the impacts of climate change in business and investment decisions. Despite being developed as a voluntary framework, the TCFD Recommendations are rapidly becoming mainstream by virtue of their endorsement by major investors, regulators and large listed companies worldwide.

Due to the voluntary nature of the TCFD Recommendations, firms do not need to declare their intended alignment nor structure their reporting in a standardized way. Therefore, the dataset for this study was structured by organizing all publicly disclosed information from the 58 firms in the sample into the four core elements outlined by the TCFD Recommendations - governance, strategy, risk management and metrics and targets, and their related subcategories.

Table 1: TCFD Recommendations – Core Elements

Governance	Strategy	Risk Management	Metrics and Targets
Disclose the organization's governance around climate-related risks and opportunities.	Disclose the actual and potential impacts of climate-related risks and opportunities on the organization's businesses, strategy, and financial planning where such information is material.	Disclose how the organization identifies, assesses, and manages climate-related risks.	Disclose the metrics and targets used to assess and manage relevant climate-related risks and opportunities where such information is material.

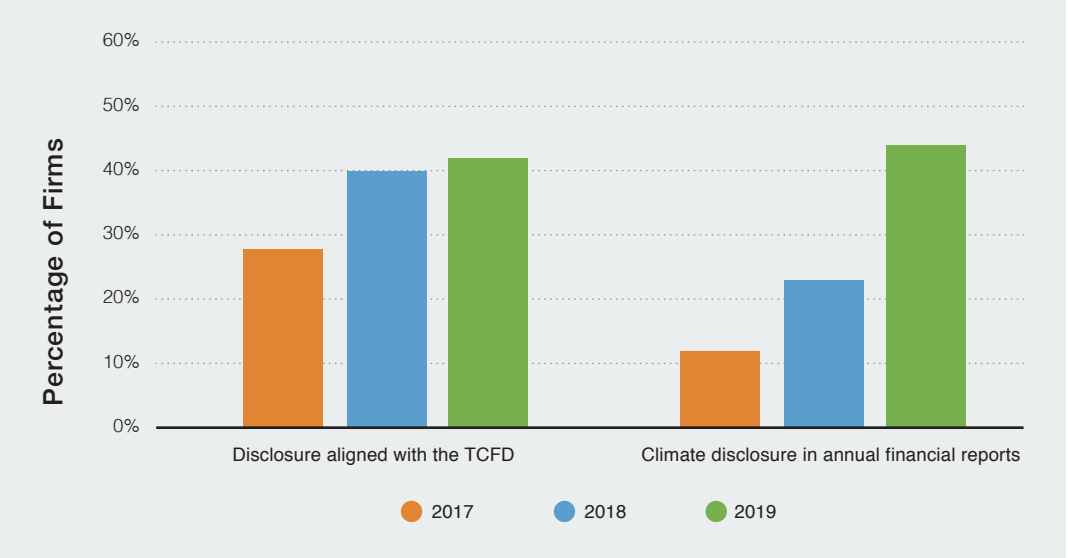
Source: Final Report: Recommendations of the Task Force on Climate-related Financial Disclosures. June 2017.

2. Reporting Alignment with the TCFD Recommendations

This section examines the level of disclosure and alignment with the TCFD Recommendations by Canadian financial firms, across all four reporting core elements of governance, strategy, risk management and metrics and targets between 2017-2019.

From an original sample of 58 financial firms across banks, pensions, insurance, financial Crowns, and credit unions, there are a total of 25 reporting in alignment with the TCFD Recommendations in 2019. This is a 40 per cent increase since 2017.

Figure 1: Canadian Financial Firms Disclosing in Alignment with TCFD (% of Sample)



The TCFD recognized that climate change is a financially material risk for all companies and therefore designed the recommendations to guide disclosure in regulatory filings. For this study, all possible sources of public disclosure were sought for each firm, both regulatory and voluntary, due to the largely voluntary nature of climate-related reporting to date. It was found that 44 per cent of those disclosing included the TCFD Recommendation-aligned information in financial reports, up from just 12 per cent in 2017.

Generally, firms tended to present succinct information within annual financial reports, and use other voluntary channels such as sustainability reports or standalone climate change reports to present more extensive information.

2.1 Governance

The complex and continuously evolving risk that climate change poses, and related arising opportunities, compel board directors to be engaged on how these will impact the business as per their accountability to investors and other stakeholders for the long-term stewardship of the company. A recent legal opinion found that boards need to put climate on their agenda, and be "alert to those risks and opportunities and are reflecting their assessment of that risk in their strategic thinking and risk management practices." [1]

Disclosure related to board oversight enables investors and other stakeholders to evaluate whether climate risk receives appropriate board and management attention.

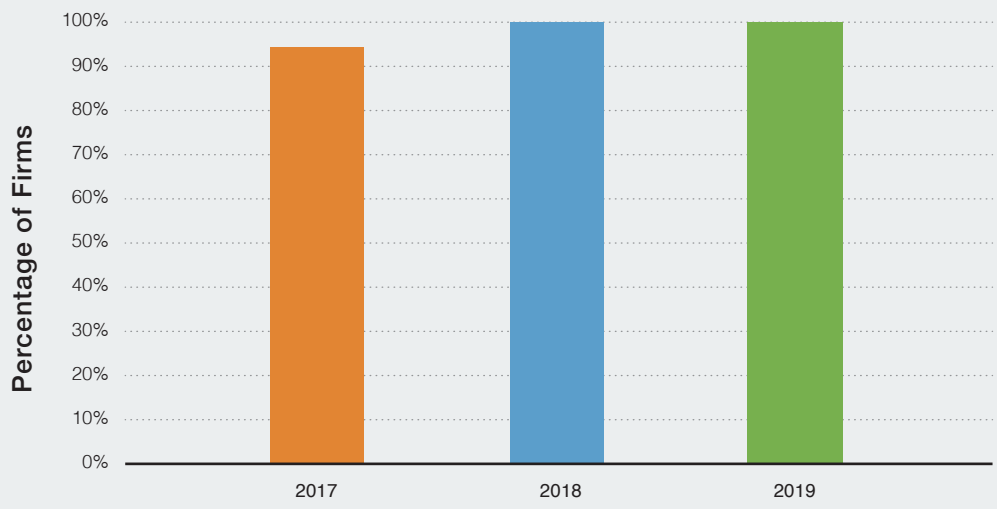
TCFD Recommendation: Governance
Disclose the organization's governance around climate-related risks and opportunities.

a) Describe the board's oversight of climate-related risks and opportunities.	b) Describe management's role in assessing and managing climate-related risks and opportunities.

a) Describe the board's oversight of climate-related risks and opportunities.

By 2019, every financial firm disclosing in alignment with the TCFD Recommendations indicated that their board was overseeing climate risk.

Figure 2: Board Oversight of Climate Risk and Opportunities from 2017-2019

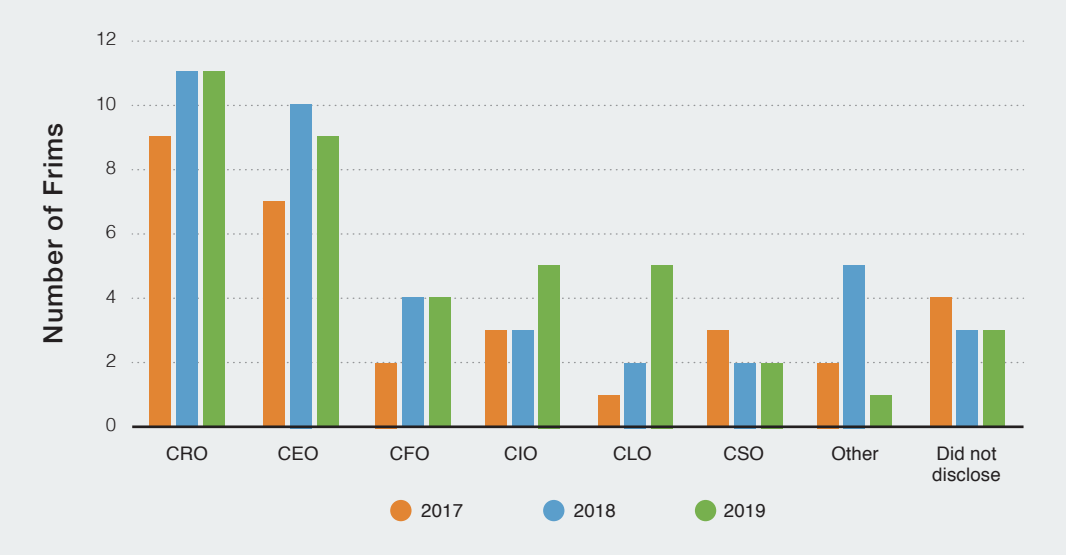


The board committee most commonly assigned to oversee climate change is the risk committee, hence risk oversight is the most commonly cited function through which boards engage on climate change, followed by strategy development, and monitoring targets. The corporate governance committee is the second most commonly cited, followed by the audit committee.

b) Describe management's role in assessing and managing climate-related risks and opportunities.

All disclosing firms indicated that there was executive level management of climate risk and opportunities in place. The Chief Risk Officer (CRO) most commonly has oversight and management of climate risks and opportunities, and CEO engagement on climate change risk and opportunity has been relatively common among Canadian financial firms.

Figure 3: Executive Management of Climate Risk and Opportunity 2017-2019 [ii, iii]



ii CRO – Chief Risk Officer, grouped Chief Financial Risk Officer; CEO – Chief Executive Officer; CFO – Chief Financial Officer, grouped Chief Actuary Officer; CIO – Chief Investment Officer; CLO – Chief Legal Officer, grouped General Counsel and Corporate Secretary; CSO – Chief Sustainability Officer; Other – grouped Chief of Staff, Chief of Responsible Investment, Chief Marketing Officer, and Chief Operating Officer.

iii Some firms indicated more than one executive level leader responsible for climate change management.

2.2 Strategy

Climate change will undoubtedly transform the economic, market and physical landscape in which all businesses operate. Through improved risk assessment and deepening understanding of climate risks, firms can align their strategic plans with their risk appetite, and capitalize on new opportunities that will manifest as the world shifts away from carbon dependence.

Investors and other stakeholders need to understand how climate-related issues may affect a firm's business, strategy, and financial planning over the short, medium, and long term. Such information is used to inform expectations about the future performance of a firm.

TCFD Recommendation: Strategy

Disclose the actual and potential impacts of climate-related risks and opportunities on the organization's businesses, strategy, and financial planning where such information is material.

a) Describe the climate-related risks and opportunities the organization has identified over the short, medium, and long term.	b) Describe the impact of climate-related risks and opportunities on the organization's businesses, strategy, and financial planning.	c) Describe the resilience of the organization's strategy, taking into consideration different climate-related scenarios, including a 2 degree Celsius or lower scenario.

a) Describe the climate-related risks and opportunities the organization has identified over the short, medium, and long term.

Nearly 80 per cent of disclosing firms reported that they were assessing risk over the short, medium and long terms, and of those, 70 per cent disclosed the specific risks they were facing in each of the time horizons. Commonly cited risks in each of the time frames included:

- Short-term risks: regulatory uncertainty, changes in market preferences
- Medium-term risks: changing weather patterns, technological developments
- Long-term risks: changing market preferences that could impact longer term investment decisions, legal obligations that could impact business activities

It should be noted that the TCFD Recommendations do not specifically define time frames for short, medium and long term, so firms set their own definitions of these time horizons as appropriate for their business activities.

b) Describe the impact of climate-related risks and opportunities on the organization's businesses, strategy, and financial planning.

Disclosures about the impact of climate-related risks and opportunities fell into two categories – operational and business-related. Commonly reported operational initiatives were resource efficiency and green energy sources for offices and branches, and reducing operating costs through climate adaptation or resilience initiatives.

Over the three-year period assessed for this study, there was an increase in disclosures about the impact climate risks and opportunities are expected to have on portfolios and other core business activities. Examples of commonly cited impacts included:

- **Physical risk:**
  - Risks facing key assets or industries in which the financial firm is invested
  - Potential increase in amount of insurance claims, resulting in lower margins
- **Policy risk:**
  - Uncertainty about the unpriced cost of carbon
- **Market risk:**
  - Change in market demand that could occur in the transition to a low carbon economy
- **Products and services:**
  - Client demand for investments in clean technology
  - New insurance offerings that assist clients in the adaptation and mitigation of climate change
  - Green bonds as an avenue for portfolio diversification
  - Allocation of funds that would be dedicated to sustainable finance initiatives

c) Describe the resilience of the organization's strategy, taking into consideration different climate-related scenarios, including a 2 degree Celsius or lower scenario.

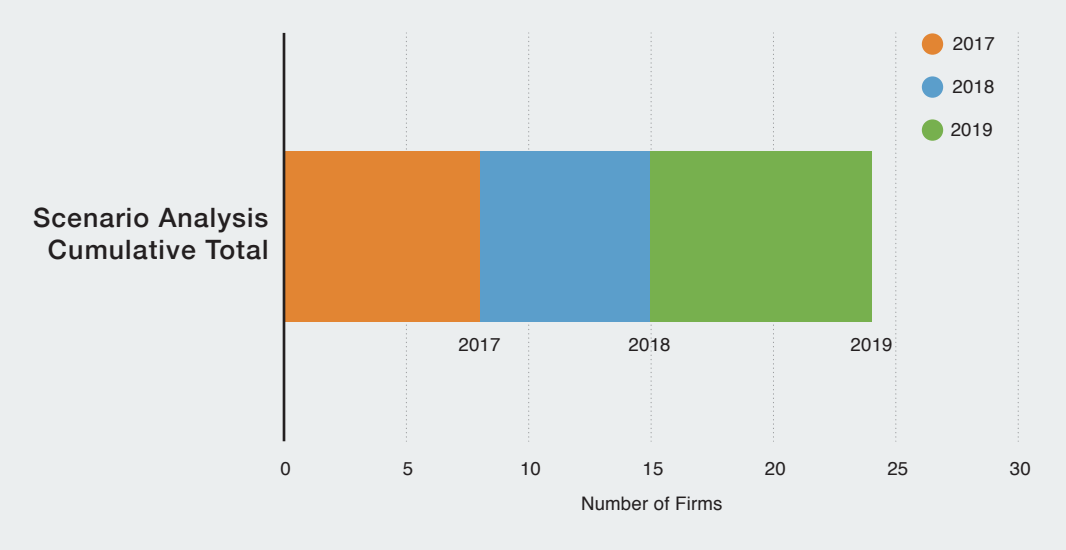
In 2019, 90 per cent of reporting firms used some form of scenario analysis. The absolute number more than tripled from seven firms to 24 over the 2017-2019 period. Most firms reported looking at both physical and transition risks. There is a balanced use of both quantitative and qualitative scenarios among the reporting firms. Common inputs for scenarios were the International Energy Agency (IEA) World Energy Outlook which demonstrates how the energy mix may change if the world is to meet or miss its climate goals, and the Intergovernmental Panel on Climate Change (IPCC)'s various Representative Concentration Pathways (RCP) which show the possibilities for temperature change based on different emissions levels the world may experience. The average time horizon utilized among disclosing firms is 15 years, with the longest being 20 years.

About Climate Risk Scenarios

Uncertainty about the timing and specific impacts of climate change makes scenario analysis a useful tool. There are several types of climate scenario analysis, including:

- **Physical risk scenarios** that investigate the effects climate change could have on assets, communities and ecosystems as temperature rise causes various climatic events such as droughts, flooding, changes in storm patterns and more.
- **Transition risk scenarios** model how economies might adjust to changing availability and cost of energy sources, or plausible government policies that might come into force to drive down greenhouse gas emissions such as a price on carbon emissions.

Figure 4: The Use of Scenario Analysis from 2017-2019



Climate risk scenario analysis is still in its early days, with over half of the disclosing firms conducting their first assessment between 2018-19. Over 75 per cent of firms reported that scenario analysis supports strategy development, and led to a greater understanding and framing of the overall risk climate poses to their business. Often cited challenges were a lack of business decision-useful data, reference scenarios that can be used for climate-related financial analysis, and methodologies to quantify climate risk.

2.3 Risk Management

Investors and other stakeholders need to understand how a firm's climate-related risks are identified, assessed, and managed and whether those processes are integrated into existing risk management processes. Such information supports the evaluation of the firm's overall risk profile and risk management activities.

TCFD Recommendation: Risk Management Disclose how the organization identifies, assesses, and manages climate-related risks.		
a) Describe the organization's processes for identifying and assessing climate-related risks.	b) Describe the organization's processes for managing climate-related risks.	c) Describe how processes for identifying, assessing, and managing climate-related risks are integrated into the organization's overall risk management.

a) Describe the organization's processes for identifying and assessing climate-related risks.

b) Describe the organization's processes for managing climate-related risks.

For this analysis, we combined disclosure items a) and b) above to look at how firms described their processes for identification, assessment, and management of climate-related risks, and the extent to which climate risk has been integrated into enterprise risk management. All but one of the 25 disclosing firms reported that processes are used to identify, assess, and manage climate change risk.

Typical elements of risk identification included:

- the types of risk (such as macroeconomic, strategic, operational, transactional, and others)
- the business segments exposed to climate risk (such as lending, investing, insurance, operations, and others)
- the industry sectors most sensitive to climate risks (such as energy, transportation, agriculture, and others)

Processes for risk assessment commonly cited included:

- financial materiality assessment for climate risk
- prioritization of specific climate risks
- categorization of climate risks
- scenario analysis

Processes for risk management commonly included:

- development of risk mitigation plans
- reporting and monitoring climate risk
- the continued integration of climate change into enterprise risk management

Some disclosing firms described the departments responsible for managing various elements of climate risk across the business, commonly cited were risk, investment, operational, and sustainability teams.

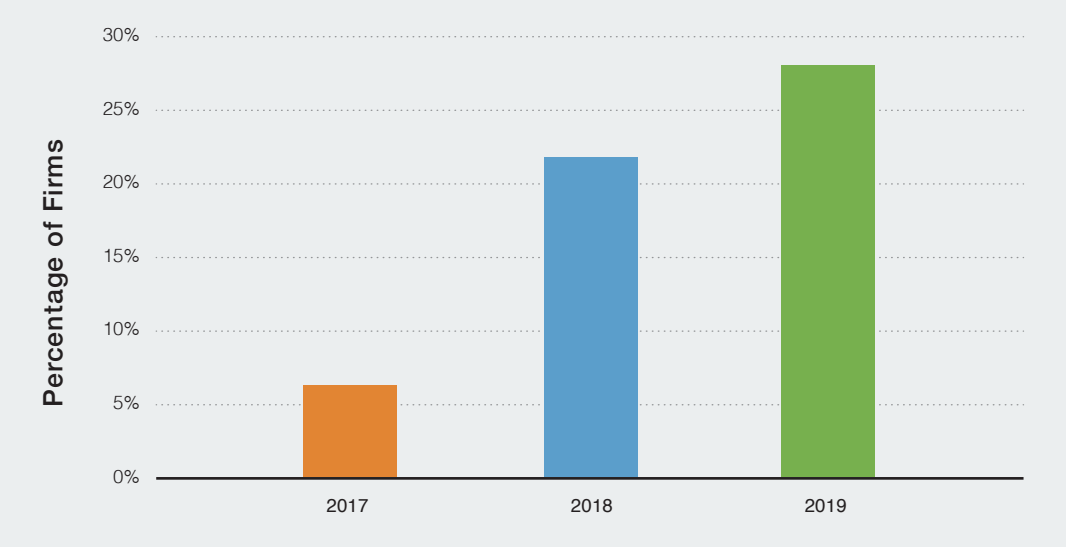
c) Describe how processes for identifying, assessing, and managing climate-related risks are integrated into the organization's overall risk management.

Nearly 60 per cent of disclosing firms reported that climate change risk has been integrated into enterprise risk management, which is up 20 per cent from 2017. There are two indicators that can give an indication of the depth of integration:

- Reporting the relative significance of climate risk
- Providing information about the materiality process used to assess climate risk

In 2017, less than 10 per cent of financial firms were disclosing the relative significance of climate-related risks versus other financial and non financial risks, but this grew to nearly 30 per cent by 2019.

Figure 5: Firms Disclosing Relative Significance of Climate Risk from 2017-2019



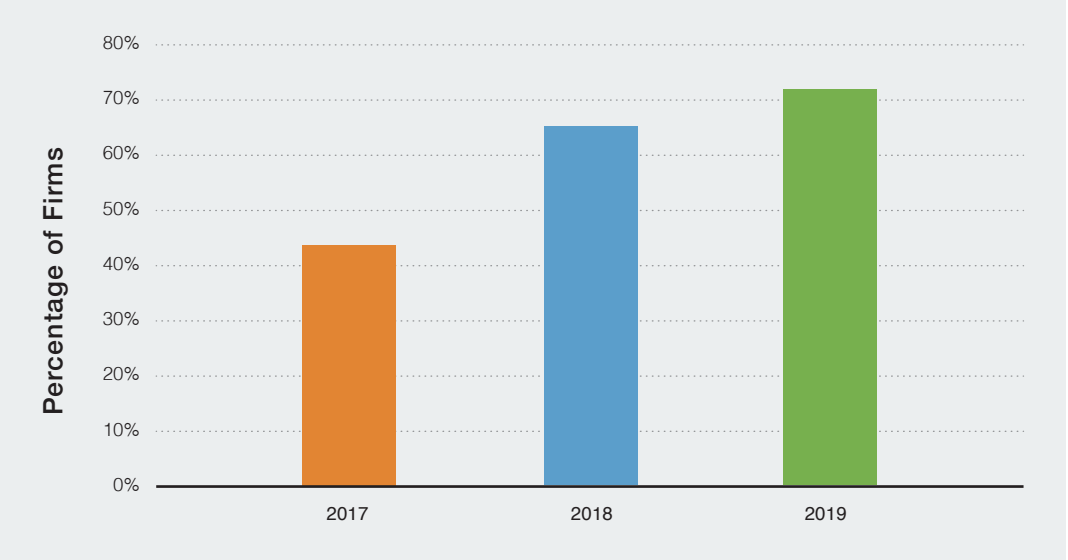
Information is considered material if it is likely to influence or change a reasonable investor's decision to buy, sell or hold the issuer's securities.

Under Canadian securities regulations, public companies must disclose information if they have deemed it material to investor decision making. The Canadian Securities Administrators (CSA) recognized that many issuers, including those in non-carbon intensive industries, are or will be exposed to climate change-related risk. As outlined in CSA Staff Notice 51-358, relevant, clear and understandable entity-specific disclosure will help investors understand how the issuer's business is specifically affected by material risks resulting from climate change, and provide context about how the board and management assess climate change-related risks.[2]

The TCFD Recommendations state that disclosures related to the Governance and Risk Management core elements should be provided in annual financial filings because climate-related risk is a non-diversifiable risk that affects nearly all sectors, and this sort of information provides important context for investors.[3] If climate is determined by the reporting firm to be a financially material issue, the firm should include information as per the Strategy and Metrics and Targets sections of the TCFD Recommendations in annual financial filings as well.

For these reasons, investors seek to understand whether a firm has determined climate to be a financially material issue. By 2019, 72 per cent of firms had disclosed that they undertook a materiality assessment for climate risk, up from 44 per cent two years earlier.

Figure 6: Firms Undertaking Materiality Analysis for Climate Risk from 2017-2019



2.4 Metrics and Targets

Using metrics and targets helps firms and investors alike assess progress made. By including metrics and targets within their disclosure, firms improve accountability and are able to produce measurable outcomes.

TCFD Recommendation: Metrics and Targets Disclose the metrics and targets used to assess and manage relevant climate-related risks and opportunities where such information is material.		
a) Disclose the metrics used by the organization to assess climate-related risks and opportunities in line with its strategy and risk management process.	b) Disclose Scope 1, Scope 2, and, if appropriate, Scope 3 greenhouse gas (GHG) emissions, and the related risks.	c) Describe the targets used by the organization to manage climate-related risks and opportunities and performance against targets.

a) Disclose the metrics used by the organization to assess climate-related risks and opportunities in line with its strategy and risk management process.

c) Describe the targets used by the organization to manage climate-related risks and opportunities and performance against targets.

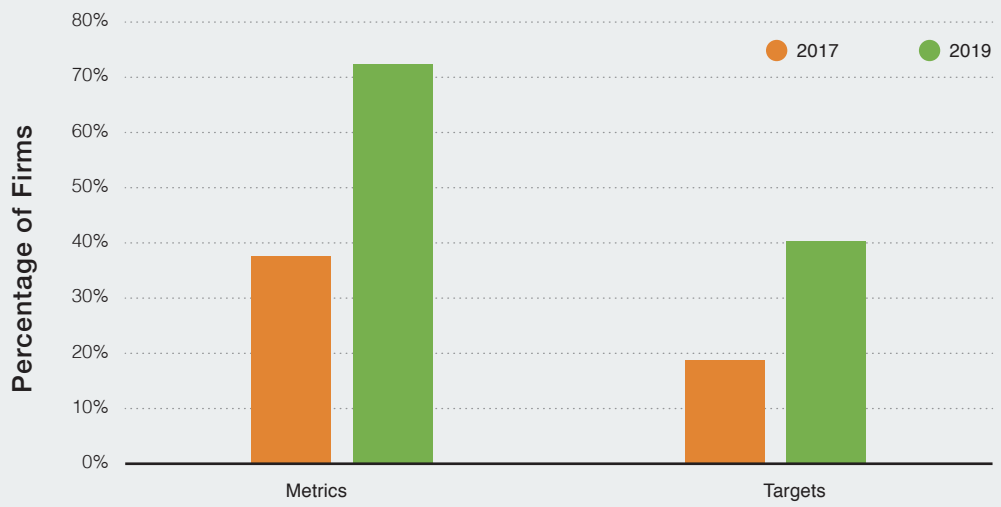
"Sound risk management starts with sound measurement."

– **Tiff Macklem**
Governor, Bank of Canada
GRI Summit 2020

For this analysis, we grouped disclosures a) and c) to look at how firms were disclosing about both metrics and targets. Historically, firms more commonly disclosed operational metrics and targets such as energy efficiency in office buildings. There was significant growth in the disclosure of metrics and targets relating to portfolios and sustainable investment in 2019. 72 per cent of firms disclosed metrics, up 35 per cent from 2017. Just 40 per cent of firms disclosed targets, but this is a doubling from 2017. Specifically, firms are disclosing metrics and targets in relation to:

- Sustainable finance commitments: for example, supporting businesses and projects that substantially cut greenhouse gas emissions or contribute to achieving a low-carbon economy
- Credit portfolio rebalancing: for example, reducing or ending coal financing
- Diversification of portfolios: for example, lending and financing of green and transition activities

Figure 7: Portfolio and Sustainable Investment Metrics & Targets Disclosed (2017, 2019)



b) Disclose Scope 1, Scope 2, and, if appropriate, Scope 3 greenhouse gas (GHG) emissions, and the related risks.

Nearly all firms that disclosed in alignment with the TCFD Recommendations in 2019 included scope 1 and 2 greenhouse gas emissions – these are emissions that are produced directly by the firm or come from purchased energy used by the firm to power its operations.[4]

Scope 3 emissions are defined as all indirect emissions (not included in scope 2) that occur in the value chain of the reporting company. For financial firms, this means the emissions caused by the companies and assets in their lending, underwriting or investment portfolios. To understand their financed emissions risk, financial firms need more data about the nature and extent of scope 1 and 2 emissions of counterparties. Currently, there are 20 firms in the sample that are disclosing scope 3 emissions.

The Value of Understanding Scope 3 Emissions

Financial firms need to understand the extent of their 'financed emissions' - defined as the financial activities (lending, investing) that make the GHG emissions of their clients possible. Carbon price and market preferences are expected to change the risk return profile for many issuers as the drive to decarbonize the economy accelerates over the coming decade. These changes could add costs, change the nature of competition and have an adverse impact on the creditworthiness and equity value of issuers with higher exposure to carbon emissions.

3. Observations and Proposed Path Forward

"Companies need reliable, consistent and comparable ways to measure and state their exposure to climate risks. Financial institutions, too, must understand and be transparent about their exposures."

– **Tiff Macklem**
Governor, Bank of Canada
GRI Summit 2020

Disclosing climate-related financial information is still a developing practice, but larger Canadian financial firms are early adopters relative to other Canadian firms[5] and on par among their peers globally.[6] It should be noted that over half of the sample of 58 are yet to disclose about their financial risks from climate change, in alignment with the TCFD Recommendations. To ensure widespread practice across the sector, including among smaller firms, and to support increased scope and quality of reporting among all firms, there are several steps policymakers, firms and investors can take.

3.1 Observations

The TCFD Recommendations are a set of qualitative, management discussion-oriented disclosures. The strength of this format is that it gives firms flexibility to report their unique story, but the downfall can be a lack of specifics. For example, there is widespread transparency about climate governance among the reporting firms in Canada, but it can be difficult to understand the depth, quality and nature of engagement the board has on climate risk in the absence of more specific reporting guidance and indicators aligned with the higher level TCFD Recommendations.

After three reporting cycles, there are higher levels of transparency about governance and strategy, but less complete reporting about risk management, metrics and targets, as a general trend. But the signals show that the top of the house is engaged, and financial firms are progressing toward the integration of climate risk into enterprise risk management. This process will take time as data sets become more robust, methodology evolves, and expertise builds up over time. Financial firms are experienced in identifying and integrating new risks and can draw lessons from other issues that have had their own maturation curves, such as cyber risk or market risk.

The lack of standardization, and use of multiple reporting channels by the same firm, means access and utility of data for individual assessment and sector wide comparison by analysts and other stakeholders is cumbersome. Timeliness and availability of information is also a challenge. While financial filings have mandatory release dates within the first quarter in Canada for large firms, voluntary disclosures can span the first three quarters of the year.

3.2 Proposed Path Forward

To accelerate the road to adoption, the Global Risk Institute has identified a proposed path forward for the financial sector. Further steps to increase the quality and quantity of reporting would require action from policymakers, firms and investors alike.

Policymakers:

- Plainly articulate a roadmap for the adoption of the TCFD Recommendations by Canadian firms, outlining what is expected and by when.
- Clarify what is mandatory and what is voluntary for both large companies and smaller ones.
- Provide the foundational elements needed by firms to accelerate climate risk assessment and management, including data, appropriate methodologies and other clear expectations for how scenario analysis should be conducted.

Firms:

- Boards should deepen their involvement in how climate risk is incorporated into corporate planning; and discussions on how climate risk and opportunities may impact future business plans should be fully integrated into relevant strategic and risk oversight discussions.
- Consistently structure climate-related financial disclosures so progress can be shown and assessed annually, helping analysts and investors easily access information, and know where and when to expect it (e.g. Consider disclosing climate-related risks and opportunities in one report or using a centralized index).
- Balance reporting on opportunities and operations with information about risk and the expected impacts of climate change on business and strategy.
- Continue to innovate and improve scenario analysis and other tools to assess the complex and interconnected layers of climate risk and opportunity, looking at both physical and transition risk, and how this will impact the business over the short, medium and long term.
- Set and report on metrics and targets that are science-based and aligned with net-zero carbon emissions.

Investors:

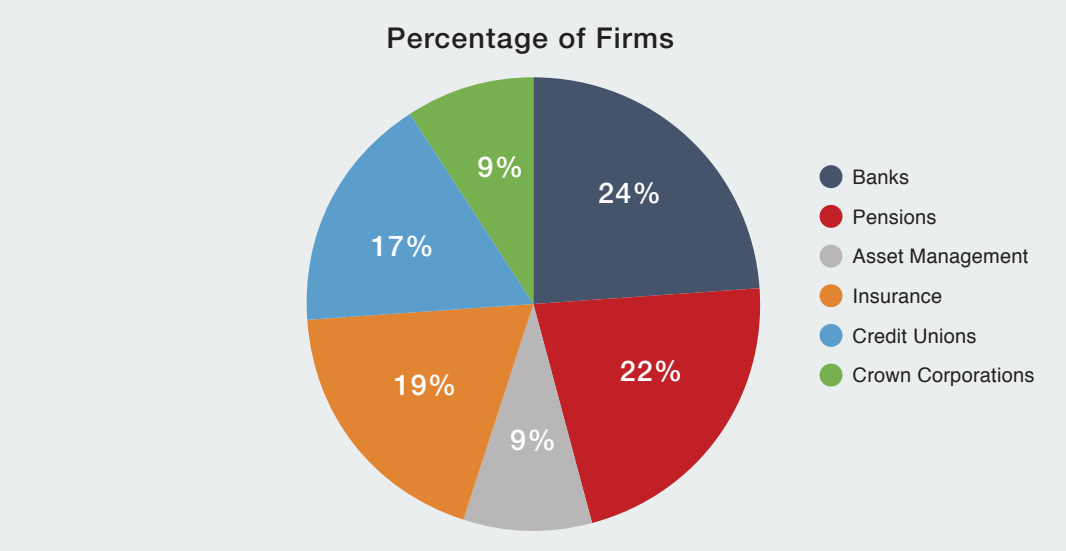
- Engage with senior executives and boards to encourage climate disclosure that is in alignment with the TCFD Recommendations and explain why and how the data is used.
- Work with issuers to help increase understanding of climate risk and encourage commitment to emissions reductions and other actions toward net-zero.
- Clarify expectations and needs in investment policies and guidance, and join forces with other investors to convey clear and consistent messages about reporting needs.

4. Methodology and Sample

This report presents an analysis of the Canadian financial sectors' climate-related financial disclosures over three annual reporting cycles (2017, 2018, 2019). The study aims to assess alignment with the TCFD Recommendations, and by extension, gain insight into the overall state of climate risk management among Canada's largest financial firms.

The full sample includes 58 firms spanning pension funds, banks, insurance providers, credit unions, asset managers and financial Crown corporations in order to give a full picture across the diversity of the Canadian financial sector. See the figure below for summary breakdown. Of the 58 assessed over the three-year period, 16 firms disclosed in 2017, and in 2019 the number of reporting firms increased to 25. The data gathering period for this study ran from 1 January to 1 September 2020, so firms that published information thereafter for their 2019 performance are not included.

Figure 8: Sample by Sector



Primary and secondary data was collected to produce quantitative and qualitative analysis and distill high level trends on both disclosure practice and climate risk management. Primary data was collected from various publicly available sources including annual reports, management discussion and analysis (MD&A), management proxy circulars, sustainability reports, stand alone TCFD or climate specific reports, responsible investment reports, and CDP [iv] questionnaire responses. Secondary data was provided by CDP, who in 2018 aligned its climate questionnaire to the TCFD Recommendations.

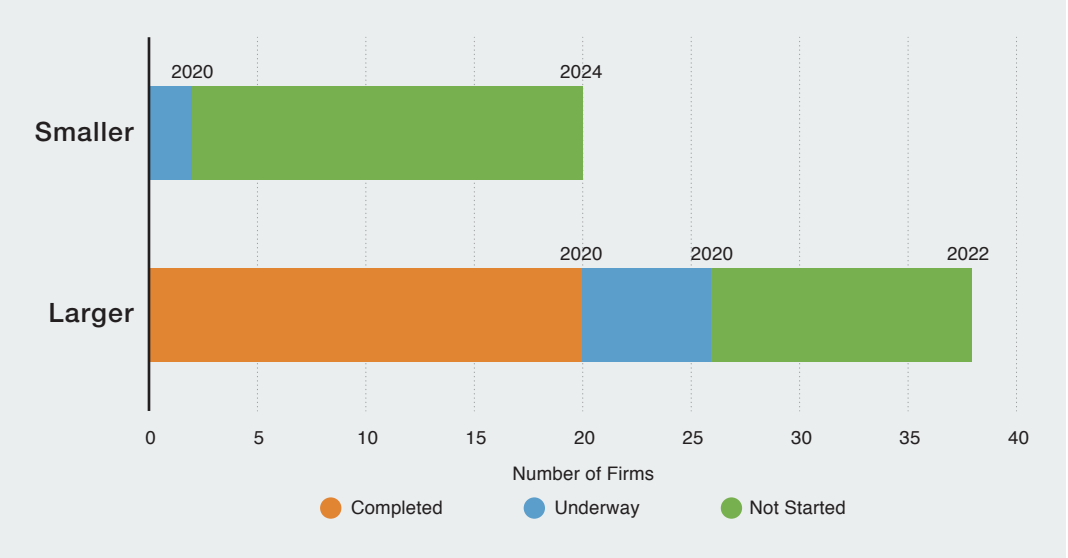
iv Formerly Carbon Disclosure Project, thousands of firms respond to their investor-oriented questionnaire on climate and other environmental issues.

Appendix 1: Progress on Expert Panel Pathway for TCFD Uptake

The Canadian Expert Panel on Sustainable Finance recommended a two-phased approach for firms to begin and progress with disclosure in alignment with the TCFD Recommendations. In the first phase, firms should disclose relatively general qualitative descriptions for governance, strategy, and risk management, as well as scope 1 and 2 carbon emissions (by 2022 for large firms, and 2024 for small firms). By the second phase, firms should include more specific qualitative and quantitative information in relation to strategy, risk management, and metrics and targets (by 2024 for large firms, and 2026 for small firms).[7]

Canadian financial firms are generally on track with the completion pathway as proposed by the Expert Panel. Three quarters of the largest companies are already underway with phase 1, making progress against the target date of 2022, and nearly half have completed the requirements for phase 1 and have moved into phase 2.[v] Of the smaller firms, two have entered phase 1 thus far. Smaller financial firms have more time, the opportunity to learn from other firms, and will benefit from further guidance expected to be issued by Canadian regulators and supervisors, the TCFD and other bodies over the coming years, but still may need further support to ensure the proposed completion timetable is met.

Figure 9: Progress Made by Financial Firms Against the Expert Panel TCFD Completion Timetable for Phase 1[vi]



v Progress is based on 2019 reporting year.

vi Includes all reporting firms from 2017, 2018, and 2019 for a total of 28.

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The 58 financial firms surveyed for this report include:

Affinity, AIMCO, Alterna, Aviva, BCI, BDC, BMO, CAAT Pension Plan, Canada Life, Canadian Western Bank, CDIC, CDPQ, CIBC, CMHC, CN Rail, Coast Capital Savings, Concentra, Conexus, Connet, Co-operators, CPPIB, Desjardins, Economical Insurance, EDC, Equitable Bank, Fairfax, First West, HOOPP, Home Trust, HSBC, IGM Financial, IMCO, Intact, Laurentian Bank, Lloyds underwriters, Manulife, Meridian, Munich Re, National Bank of Canada, Northbridge Group, OMERS, OPB, OPTrust, OTPP, Payments Canada, PC Bank, Power Financial, PSP Investments, RBC, RSA Group, Scotiabank, Servus, Steinbach, Sunlife Financial, TD Bank, UTAM, Vancity, and Wawanesa Mutual Insurance Company.