

# INTEGRATING CLIMATE AND NATURE ACROSS CANADA'S FINANCIAL SYSTEMS, FISCAL POLICY, AND INTERNATIONAL FUNDING



## Sustainable finance: Aligning Canada's financial system with climate and biodiversity commitments

The global economy will suffer US\$178 trillion in damages over the next fifty years if we fail to take action on climate change.<sup>27</sup> In Canada, the failure to address climate transition risks could lead to US\$100 billion in stranded fossil fuel assets by the year 2036,<sup>28</sup> and by the end of this century, the cost of inaction could reach \$5.5 trillion.<sup>29</sup> The average citizen can expect to see rising home insurance prices,<sup>30, 31</sup> price volatility, and increasing inflation rates due

to extreme heat and weather events.<sup>32</sup> Adapting the economy to confront climate change will harness emerging economic opportunities in sectors like clean energy, which is projected to create 2.2 million jobs in Canada by 2050.<sup>33</sup> For the energy sector alone, a rapid transition to green energy could save the global economy up to \$12 trillion.<sup>34</sup> The government alone cannot bear the full burden of providing the required funds to realize this unprecedented transition, private finance will be necessary to meet the goal and is one of the only sectors with no reduction goals in Canada.<sup>35</sup> Regulating the financial sector is the missing piece of Canada's climate policy.

Photo: NOAA

27 Deloitte, "Deloitte research reveals inaction on climate change could cost the world's economy US\$178 trillion by 2070." <https://www.deloitte.com/global/en/about/press-room/deloitte-research-reveals-inaction-on-climate-change-could-cost-the-world-economy-us-dollar-178-trillion-by-2070.html>

28 Gregor Semieniuk et. al., "Stranded fossil-fuel assets translate to major losses for investors in advanced economies." <https://www.nature.com/articles/s41558-022-01356-y>

29 Sean Cleary & Neal Willcott, "The Physical Costs of Climate Change: A Canadian Perspective." <https://smith.queensu.ca/centres/isf/pdfs/ISF-Report-PhysicalCostsOfClimateChange.pdf>

30 Brett Weltman, "Severe Weather in 2022 Caused \$3.1 Billion in Insured Damage -- making it the 3rd Worst Year for Insured Damage in Canadian History." <https://www.ihc.ca/news-insights/news/severe-weather-in-2022-caused-3-1-billion-in-insured-damage-making-it-the-3rd-worst-year-for-insured-damage-in-canadian-history>

31 Kerry Gold, "Climate change is having a direct impact on home insurance rates." <https://www.theglobeandmail.com/real-estate/vancouver/article-climate-change-is-having-a-direct-impact-on-home-insurance-rates/>

32 Maximilian Kotz et. al., "The impact of global warming on inflation: averages, seasonality and extremes." <https://www.ecb.europa.eu/pub/pdf/scpwps/ecb.wp2821~f008e5cb9c.en.pdf>

33 Clean Energy Canada, "A net-zero 2050 can deliver 700,000 more Canadian energy jobs than exist today, but rolling back climate action would severely threaten this clean energy future." <https://cleanenergycanada.org/report/a-pivotal-moment/>

34 Way et al., "Empirically grounded technology forecasts and the energy transition." *Joule* vol.6 iss.9, September 21, 2022. <https://doi.org/10.1016/j.joule.2022.08.009>

35 Environment and Climate Change Canada, "2030 Emissions Reduction Plan: Canada's Next Steps to Clean Air and a Strong Economy." 2022. [https://publications.gc.ca/collections/collection\\_2022/eccc/En4-460-2022-eng.pdf](https://publications.gc.ca/collections/collection_2022/eccc/En4-460-2022-eng.pdf)

## COMPLEMENTARY RECOMMENDATIONS

Bill S-243, the *Climate-Aligned Finance Act (CAFA)*,<sup>36</sup> tabled by independent Senator Rosa Galvez, was developed in collaboration with dozens of national and international experts. The Act aims to close gaps in climate policy and governance of the financial system, while strengthening clean growth and biodiversity preservation and upholding the rights of Indigenous peoples in alignment with the United Nations Declaration on the Rights of Indigenous Peoples (UNDRIP) in Canada and everywhere federally regulated entities conduct business.

The bill would strengthen Canada's economic resilience and its ability to achieve national and international climate commitments by legislating the entire field of federal jurisdiction over financial regulation, without extending the powers and duties of federal institutions. It will do so by:

1. **Establishing a duty** for directors, officers and administrators to align entities with climate commitments;
2. **Aligning the purposes** of federally regulated entities, crown corporations<sup>37</sup> and the financial regulator, with climate commitments;
3. Requiring the **development of transition plans**, targets and progress reports on meeting

<sup>36</sup> Senate of Canada, "Bill S-243." <https://www.parl.ca/DocumentViewer/en/44-1/bill/S-243/first-reading>

<sup>37</sup> Since the bill mandates alignment with climate commitments for the main crown corporations providing funding, it also addresses the problem of fossil fuel subsidies since almost none could go forward under the "planning for a fossil-fuel free future" principle and the prohibition of CCUS for the fossil fuel sector.

climate commitments through annual reporting requirements and increasing and transparency by making them public and freely accessible;

4. Ensuring **climate expertise** on certain boards of directors and avoiding conflicts of interest;
5. Making **capital adequacy requirements** proportional to microprudential and macroprudential climate risks generated by financial institutions;
6. Requiring a **government action plan** to align all financial products with climate commitments; and
7. Mandating timely **public review processes** on implementation progress to ensure iterative learning.

### Recommendation:

Implement a coherent legislative framework that will enable the financial sector and federally regulated entities to align their activities with Canada's international commitments and nationally legislated targets, as defined by Bill S-243 *Climate Aligned Finance Act*. [FIN, ECCC]

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