

Sustainable finance gaining traction

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“Stakeholders for a Cohesive and Sustainable World” was this year’s theme for the World Economic Forum Annual Meeting.

Three thousand stakeholders from around the world gathered in January to develop a “Davos Manifesto 2020” with the goal of reimagining the purpose and scorecards of companies and governments as they confront climate change. The participants explored a wide range of subjects including the role of businesses, and the financial sector in saving the planet.

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As efforts to tackle climate change intensify, so will the pressure on the financial sector to contribute to the solution; the concept of “sustainable finance” is gaining traction. Over the balance of the year, we will be publishing a series of short articles examining issues and developments around sustainable finance and their potential impact on our financial institutions.

What is sustainable finance?

The Canadian government’s “Final Report of the Expert Panel on Sustainable Finance” defines sustainable finance as:

- capital flows, as reflected in lending and investment;
- risk management activities, such as insurance and risk assessment; and
- financial processes (including disclosures, valuations, and oversight) that assimilate environmental and social factors as a means of promoting sustainable economic growth and the long-term stability of the financial system”¹.

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There are also several global initiatives focused on harnessing the power of sustainable finance. Such initiatives include:

- The Task Force on Climate-related Financial Disclosures (TCFD) is mandated to develop voluntary, consistent climate-related financial risk disclosures for use by companies in providing information to investors, lenders, insurers, and other stakeholders. Established in 2015 by the Financial Stability Board, the TCFD considers the physical, liability and transition risks associated with climate change and what constitutes effective financial disclosures across industries.
- The Group of Thirty, of which Canada is a member, recently launched a study on climate change and financial markets. This project will evaluate how countries and financial authorities can best encourage a transition to a carbon neutral economy and will also examine climate-related financial disclosure, climate stress-testing, a global carbon tax and other policies aimed at greening the financial system.
- The Central Banks and Supervisors Network for Greening the Financial System (NGFS) forum which brings together 36 central bankers and supervisors forum allows for the exchange of experiences and the sharing of best practices. The forum's purpose is to contribute to the development of environment and climate risk management in the financial sector, and to explore how mainstream finance can be mobilized to support the transition toward a sustainable economy.

Closer to home is the federal government's "Final Report of the Expert Panel on Sustainable Finance" published last June. The Expert Panel's mandate was to explore opportunities and challenges facing Canada in achieving sustainable growth, and to develop a set of recommendations to align sustainable finance with Canada's climate and economic goals.

Organized under three pillars: The Opportunity, Foundations for Market Scale, and Financial Products and Markets for Sustainable Growth, the report's 15 recommendations "seek to leverage Canada's financial acumen to facilitate and accelerate market activities, behaviours and structures that—at scale—could put Canada and its key industries at the forefront of the transition to a climate-smart economy"².

The report's recommendations range from the establishment of new bodies such as a "Canadian Centre for Climate Information and Analytics" and a "Canadian Sustainable Finance Action Council" to broad objectives such as "promoting a knowledgeable financial support ecosystem" or mapping "Canada's long-term path to low-emissions, climate smart economy, sector by sector, with an associated capital plan".

Particularly relevant are recommendations 5 and 8, which propose that Canada define and pursue a Canadian approach to implement the recommendations of the Task Force on Climate-Related Financial Disclosures, and that climate-related risk be embedded into monitoring, regulation and supervision of Canada's financial system.

¹ "Final Report of the Expert Panel on Sustainable Finance", Mobilizing Finance for Sustainable Growth, Government of Canada, page 2.

² Ibid, page 1