SUMMARY REPORT

SUSTAINABLE FINANCE II

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Good Policy. Better Canada. The Public Policy Forum builds bridges among diverse participants in the policy-making process and gives them a platform to examine issues, offer new perspectives and feed fresh ideas into critical policy discussions. We believe good policy is critical to making a better Canada—a country that's cohesive, prosperous and secure. We contribute by:

- Conducting research on critical issues
- Convening candid dialogues on research subjects
- Recognizing exceptional leaders

Our approach—called **Inclusion to Conclusion**—brings emerging and established voices to policy conversations, which informs conclusions that identify obstacles to success and pathways forward. PPF is an independent, non-partisan charity whose members are a diverse group of private, public and non-profit organizations.

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BACKGROUND

Sustainable Finance has a key role in mobilizing capital to support long-term investments into sustainable economic activities and projects. It considers environmental, social and governance (ESG) considerations when making a business or investment decision that promotes long-term environmental sustainability and economic prosperity. As defined by the Expert Panel, sustainable finance is defined 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. The conditions for sustainable economic growth are to meet the needs of the present without compromising the future.**[1]

In 2018, PPF organized an initial series of roundtables on Sustainable Finance to support the work of the Expert Panel on Sustainable Finance, a federally appointed group of experts chaired by Tiff Macklem, then the Dean of the Rotman School of Business at the University of Toronto. Sessions were organized by PPF in partnership with the Ivey Foundation, Caisse de dépôt et placement du Québec, the City of Vancouver, Environment & Climate Change Canada, the Royal Bank of Canada, and Suncor in five Canadian cities: Calgary, Montreal, Ottawa, Toronto and Vancouver. These sessions allowed members of the Expert Panel to hear directly from stakeholders on many aspects of sustainable finance, with input from representatives across the business community, think tanks, academia, and civil society

The Expert Panel report was released in mid-2019 and attracted considerable media and public attention. It launched a number of collaborative efforts to work on implementation of the recommendations. In a follow-up, PPF, with the support of the Insurance Bureau of Canada, the Ivey Foundation, the Canada Infrastructure Bank, and CPA Canada, organized a second round of virtual national discussions to maintain momentum and advance discussion on the practical considerations related to implementing the Expert Panel's recommendations.

Sustainable Finance 2 focused on the Expert Panel report's recommendations in four key areas: climate data and analytics, developing a capital mobilization plan, developing a transition taxonomy and expanding the green fixed income market, and supporting the oil and gas sector through sustainable finance. These four topics reflected areas where research and dialogue were already underway and where PPF could add to the momentum and help catalyze the development of public policy and business practices related to sustainable

[1] Expert Panel on Sustainable Finance, "Final Report of the Expert Panel on Sustainable Finance", 2019, p.2.

finance. Four virtual roundtables were organized and held from October to November 2020 on priority aspects of sustainable finance.

- The first virtual session, "Advancing Climate Data and Analytics in Canada to Enable Sustainable Finance" was held October 7;
- The second virtual session, "Developing a Capital Mobilization Plan for a Transition to a Low- Carbon Economy", was held October 28;
- The third virtual session, "Advancing Sustainable Finance Through a "Made-In-Canada" Transition Taxonomy and Green Fixed Income Market", was held November 6;
- And the fourth virtual session, "Supporting Canada's Oil and Gas Industry Through Sustainable Finance", was held November 24.

	VIRTUAL SESSION	DATE HELD
1	Advancing Climate Data and Analytics in Canada to Enable Sustainable Finance	October 7
2	Developing a Capital Mobilization Plan for a Transition to a Low-Carbon Economy	October 28
3	Advancing Sustainable Finance Through a "Made-In-Canada" Transition Taxonomy and Green Fixed Income Market	November 6
4	Supporting Canada's Oil and Gas Industry Through Sustainable Finance	November 24

In addition, a special virtual keynote session on sustainable finance was organized November 17 with Tiff Macklem, now governor of the Bank of Canada, and Barbara Zvan, a member of the Expert Panel and now the president and chief executive officer at University Pension Plan Ontario. This session provided a forum for a broad discussion on the policy context for advancing sustainable finance and climate risk analysis in Canada, including the role being played by the Bank of Canada.

LEARNINGS FROM SF2 DISCUSSIONS

1. **Canada has been trailing.** Canada is generally seen as lagging behind global developments in sustainable finance, behind developments in the EU and some other countries. However, the level of awareness and engagement is increasing. The past few years have seen a significant escalation in research, discussion, policy and business advice, and action on many aspects of sustainable finance.

2. **Expert Panel leadership.** The Expert Panel report released in mid-2019 is a critical guide to developing sustainable finance in Canada. The report's analysis and recommendations provided an important anchor for the PPF discussions, and the panel's members remain active voices in the policy discussion. Work being done internationally, particularly in the EU and the UK on sustainable finance, is another important reference point.

3. **Serious work has begun.** Many aspects and areas of sustainable finance are now being considered and developed in Canada. Priorities and themes identified during the PPF deliberations included the importance of data and information to support effective sustainable finance decisions, the need for policy and regulatory certainty for both providers and users, and for financial institutions to earn a return on investment if the sustainable finance market is to expand. Independent research is now being conducted, climate impact and risk information is being gathered and analyzed, policy dialogue is taking place with PPF playing a central role, and negotiations are occurring (such as the efforts to create a transition finance taxonomy).

4. **Private sector in action.** The private sector and not-for-profit sector appear to be ahead of government on some key sustainable-finance issues. These include the development of a Canadian transition taxonomy, the gathering and analysis of climate information, the development of a plan for mobilizing capital for net zero transition, the development of the green bonds market and other investment products.

5. **Public sector becoming more engaged.** The federal government is becoming much more engaged in sustainable finance, as illustrated by the commitment to create a public-private Sustainable Finance Action Council (SFAC). The SFAC will be responsible for developing and implementing plans for sustainable finance. Moreover, crown financial institutions like the Canada Infrastructure Bank (CIB) are making investments that support sustainable outcomes, and the 2020 Fall Economic Statement announced the federal government will be issuing green bonds in 2021-22.

6. **Desired alignment with international practices.** Close alignment with international practices was supported by the Expert Panel and would be an efficient and effective way to implement Canada's sustainable finance practices. Transition finance for oil and gas, mining and other emissions-intensive sectors is a specific area where there are international policy gaps and where Canada could show

policy leadership, if the taxonomy and standards developed are seen as sufficiently rigorous and reporting is transparent.

SESSION 1: ADVANCING CLIMATE DATA AND ANALYTICS IN CANADA TO ENABLE SUSTAINABLE FINANCE

Highlights

- Financial markets need clear, comprehensive, high-quality information and analysis on the impacts of climate change. This information and analysis can help guide the allocation of sustainable finance that will shape an economy with much lower GHG emissions.
- Climate-relevant information is already being gathered and analyzed by governments and businesses. However, accessing climate information can be difficult, costly and not readily accessible. These factors contribute to the challenges faced by the financial sector.
- The creation of a Canadian Centre for Climate Information and Analytics (C3IA), as recommended by the Expert Panel on Sustainable Finance, is needed to establish a trusted single-stop source for authoritative climate data and information relevant to sustainable finance. The Centre could be established as a priority under the Sustainable Finance Action Council (SFAC). The C3IA would play an essential role in increasing transparency, disclosure and overall access to climate-relevant information.

Background

Asymmetric or imperfect access to climate-related information can distort economic activity away from the best available options for addressing climate risks and harnessing clean and resilient growth opportunities. The existing information gap is distorting market risk assessment, slowing progress on the low-carbon transition, and leaving Canada's economy vulnerable to impacts. In its final report the Canadian Expert Panel on Sustainable Finance recommended forming a Canadian Centre for Climate Information and Analytics (C3IA) as a trusted single-stop source for authoritative climate data and information relevant to sustainable finance. Through the C3IA, Canadian companies and financial institutions would be better positioned to seize the opportunity to respond to climate risk.

The first roundtable was led by one of the expert panel report's authors, Barbara Zvan, President and Chief Executive Officer at University Pension Plan Ontario. Two recent reports were featured: the Sustainable Prosperity Institute report, Bridging the Transparency Gap in Sustainable Finance, and the Canadian Water Network report, Framing the Canadian Centre for Climate Information and Analytics to Advance

Municipal Flood Management. The objective of the roundtable was to identify opportunities to advance climate information and analytics.

Discussion

Participants provided a variety of perspectives on climate information and analytics. Their comments related both to information and analysis that could help in three ways: to mitigate the impacts of climate change: to aid adaptation to climate change; and to guide the adoption of sustainable finance practices that will shape an economy with much lower GHG emissions. Climate-relevant information is already being gathered and analyzed by governments and businesses; however, barriers to that information being effectively utilized continue to exist. Much of the discussion by panelists and participants was on how to increase transparency, disclosure and overall access to that information for policymakers, businesses (notably the financial sector) and the public.

Financial markets need clear, comprehensive, high-quality information on the impacts of climate change associated with their business and investment decisions. In November 2020, using the Task Force on Climate-related Financial Disclosures (TCFD) recommendations, the UK Government announced its intention to mandate climate disclosure by large companies and financial institutions across the economy by 2025. In comparison to the UK, climate-related disclosures remain voluntary in Canada.

With an increasing number of Canadian companies and institutions disclosing their climate-related information, the quality of the disclosures varies with participants. The information is sometimes ambiguous and at times even questionable. As Katherine Monahan noted in her presentation, the lack of reliable and consistent climate data can result in the financial markets not pricing climate-related risks and opportunities correctly. Better climate information is critical to enable informed decision-making by individuals, businesses, investors and governments. As Canadian companies integrate climate disclosures into their business practices and report broadly on their ESG performance, there is an urgency to quickly accelerate this adaption in order to meet a new global standard. Despite the increase in the number of Canadian companies disclosing climate-related data over the past few years, there is a need to raise the quality of disclosures.

Accessing climate information can be difficult, costly and not readily accessible. Participants noted that although there is an increasing amount of climate information from the voluntary disclosures, the information exists in different locations and formats. Moreover, the quality of the climate information disclosed varies due to the range in climate disclosure standards, such as the Task Force on Climate-related Financial Disclosures (TCFD) and the Climate Disclosure Standards Board (CDSB). Moreover, unlike larger companies which have the resources and expertise to provide high-quality disclosures, small and medium-sized companies are more constrained and limited in terms of expertise and systems. As such, there will be a growing need to build

capacity and encourage high-quality disclosure from these companies and find efficiencies in reporting, since in some cases SMEs may face similar reporting expectations to those of larger firms.

The financial sector will play an essential role in driving capital flows toward cleaner, more resilient energy products, systems, markets, and solutions. In particular, participants noted that these factors contribute to the challenges faced by the financial sector in accessing climate-related information that is accurate, complete and comparable. As such, investors, lenders, and insurers do not have clear, comprehensive, high-quality information needed to make informed financial decisions and manage the risks associated. In addition to supporting the financial sector, better climate information will also help increase climate-risk literacy throughout the economy and society, serving as a catalyst for better climate-resilient decisions. Without improved climate information, society, like the proverbial frog in a boiling pot, will continue to be unaware of the climate risks threatening our economy, society and way of life.

The creation of a Canadian Centre for Climate Information and Analytics (C3IA) could provide a trusted single-stop source for authoritative climate data and information relevant to sustainable finance. As discussed in the Smart Prosperity report, *Bridging the Transparency Gap*, a C3IA could support enhanced business disclosure, foster low-carbon and climate-resilient investments, and recognize physical risk from climate change. However, a C3IA would need to be a multi-sectoral entity fostered and strengthened by the public, private and non-governmental sectors.

From that broad conversation, the key tenets of a C3IA were identified – it should be an organization that aims to be an authoritative curator of climate data that is valued and used actively by business and policy decision-makers. During the discussion, participants commented on the challenges related to confidentiality of business data and how to manage it. The scale of change needed to transform practices was also discussed, along with the role of artificial intelligence as a solution to gather and analyze data sets, the potential role for a Chief Data Officer, the challenges for small businesses, and potential for a creation of a set of environmental accounts.

Five key desirable characteristics stand out for a Canadian Centre for Climate Information and Analytics (C3IA):

1. Accessibility should be easy, broad, and electronic.
2. Data from new and existing verified sources should be accurate, reliable, consistent, and comparable.
3. Content should be user-driven (both in format and focus), interoperable, and aligned to international standards and best practices.
4. Alignment with other robust information portals is desirable.

5. Information available from researchers and businesses to enhance analytics and business tools should be amplified and organized.

A Canadian Centre for Climate Information and Analytics (C3IA) could thus help to:

- Serve as a database of climate commitments and carbon pledges from companies;
- Standardize and harmonize greenhouse gas disclosures;
- Encourage and expand robust reporting of current and relevant climate data to include Scope 3 emissions, which are indirect GHG emissions resulting from activities in a reporting company's value chain;
- Ensure stored data is findable, accessible, interoperable and reusable;
- Collaboratively work with various sources of data holders and collectors; and
- Develop scenarios focused on how different industries are exposed to different types of climate risks.

To move forward, the interaction between groups of information providers will be important for establishing a C3IA. Further engagement and consultation will be required among partners and other participants engaged in the PPF roundtable to better understand and develop best practices. At a minimum and to make progress on the creation of a C3IA, a flexible network could be established to gather, analyze and disseminate the data. Statistics Canada is a cornerstone institution in providing climate-related information. Complementary information will be required from major institutional investors, insurers, financial institutions, business associations, sectoral stakeholders, CPAs, stock exchanges, the federal government, provinces and cities, etc.

As for next steps, other groups in Canada and abroad with expertise and experience should be leveraged to support Canada's development of a C3IA, and the themes of transition and adaptation featured prominently. One participant suggested a case-study approach would help to move the issue forward, including work to align the C3IA concept with international frameworks.

Ultimately, there is a need to build the costs of climate risk into the economic system through better climate-related information and analysis. Policymakers and the private sector need to better understand the physical climate risk that Canadians are exposed to, and the importance of adapting. In other words, there is a need for effective and transparent future-focused risk modelling, based on the best information and analysis available.

SESSION 2: DEVELOPING A CAPITAL MOBILIZATION PLAN FOR A TRANSITION TO A LOW-CARBON ECONOMY

Highlights

- Canada needs a strategic plan for financing low-carbon transition and meeting its 2030 and net-zero commitments.
- The Institute for Sustainable Finance (ISF)'s report, *Capital Mobilization Plan for a Low-Carbon Economy,* shows the sectoral and regional investments needed for this transition.
- To support the mobilization of capital, the Canada Infrastructure Bank (CIB) is crowding-in private participation in large, complex, high-quality infrastructure projects that are in the public interest.
- Canada has the opportunity to provide climate solutions and technologies, and to attract the investments needed to support the transition to a low-carbon economy.

Background

If the Canadian economy is to successfully transition to one that achieves a solid and sustained rate of economic growth and higher incomes while sharply reducing emissions, then a significant scale of investment capital, financing and risk management services will be required – in clean energy use and supply, clean technology, business innovation, measures to boost energy efficiency, new and modernized infrastructure and many other areas. The roundtable explored possible sources of capital, financing and risk-management capacity, recognizing that the private sector should be the dominant source of capital and risk-taking, and how that capital and financing could be deployed across sectors and regions.

The second roundtable was moderated by one of Canada's leading pension experts, Jim Leech, Chancellor of Queen's University, former President and CEO of the Ontario Teacher's Pension Plan and Chair of the Institute of Sustainable Finance Advisory Board. Queen's University Institute for Sustainable Finance's report**,** Capital Mobilization Plan for a Canadian Low Carbon Economy, was featured at the roundtable.

Discussion

The transition to a low carbon economy is not only an environmental necessity but an economic opportunity. Recommendation #1 of the Expert Panel on Sustainable Finance advises mapping Canada's long-term path to a low-emissions, climate-smart economy sector by sector with an associated capital plan. By mapping Canada's climate goals into clear industry-competitiveness visions and capital plans, the pathway towards a low-emissions, climate-smart economy would be clearer. In particular, the capital plan would illustrate the magnitude and pace of investments needed for Canada to meet its climate objectives by 2030 and 2050. The

investments made to help Canada achieve its 2030 climate goals will also lay the groundwork to achieve its 2050 objectives.

Spurred by the economic imperative for Canada to mobilize capital as part of an immediate post-COVID economic recovery in the short term, Canada has a historic opportunity to align its goals for growth with its low-carbon transitions, as noted Ryan Riordan, co-author of the report and Associate Professor at the Smith School of Business. In doing so, Canada can create sustainable jobs, build resilient communities, and foster innovations that drive economic growth and ingenuity. However, it will require the federal and provincial governments, financial institutions, investors and the private sector to collectively identify "clean growth" opportunities. With financing costs at a historic low, there is a real opportunity to invest in GHG abatement and resilience in sectors with high GHG intensity such as transportation and oil and gas, as well as infrastructure, the building industry (including both retrofits and new construction) and many other sectors.

Queen's University Institute for Sustainable Finance's report**,** Capital Mobilization Plan for a Canadian Low Carbon Economy, shows, for the first time in Canada, the sectoral investments needed to transition Canada towards a low-carbon economy. "What gets financed, gets built," said Ryan Riordan. The report makes two clear conclusions. First, Canada requires a substantial, but far from insurmountable, investment of $128 billion over the next ten years to achieve our 2030 emission reduction targets. Second, private capital sources can and will play as great a role as public investment.

In an effort to reduce GHG emissions, the optimal low-carbon transition strategy is one that removes the largest amount of emissions for the lowest capital cost and contributes to GDP growth. The report recognizes that abatement costs vary by sector and region. For instance, the transportation sector is Canada's second highest GHG emitting sector and carries the highest overall cost of abatement, requiring a capital investment of approximately $52.6 billion. In contrast, the oil and gas sector has relatively low abatement costs, but requires the second highest capital investment of approximately $26.3 billion. Each sector highlighted by the report illustrates the different investment opportunities and challenges for various provinces and territories to meet Canada's 2030 goal.

Although specific sectors were highlighted, every facet of Canadian society will have to de-carbonize. As a continuation of their report, the Institute for Sustainable Finance's next research phase will include sectoral and jurisdictional analysis, including the type of financing instruments to achieve Canada's 2030 commitments, as well as the path to net-zero.

Panelists emphasized two factors as being essential: capital and innovation. In comparison to other countries and jurisdictions, Canada rates highly as a top investment destination trusted by financiers in Canada and abroad. Many noted that private capital sources can play a meaningful role in public investment. However, to unlock the capital needed, investors emphasized the need for greater clarity and direction in Canada's

climate policy and regulatory framework. With greater clarity by governments, investors will be more willing to take the intergenerational risks associated with long-term infrastructure investments. In addition to clarity, investors highlighted the importance of cash flow from their investments as a key enabler to their investment decisions. In addition, public sector asset owners will need to consider the opportunities for the participation of private capital to help get new infrastructure and buildings constructed.

There is an opportunity for Canada to be a creator of solutions towards transition rather than simply adopting solutions developed by others. For many global investors, fostering Canada's ingenuity and innovation can also help attract substantial investments needed to transition. However, as noted by one of the panelists, innovative Canadian companies face the challenge of developing their ideas domestically, and are sometimes quick to sell their intellectual property to other competing markets such as the United States. Although larger pools of private capital are often available to support start-up technologies in Europe and the U.S., Canadian investors emphasized their willingness to support innovative Canadian ideas and solutions. Moreover, investors can be effective partners in supporting innovation by not only providing the capital needed, but also the insights into contracting and risk management. To effectively unlock private capital, Canada will require a supportive policy structure that encourages the private sector to invest in Canada's innovative solutions.

In many instances, the private sector has been reluctant to invest in projects given the risk profile associated with climate transition. To support the mobilization of capital, the Canada Infrastructure Bank (CIB) is crowding-in private participation in large, complex, high-quality infrastructure projects that are in the public interest. Unlike private and institutional investors, the CIB has a greater ability to take on some of that risk and provide patient capital, thus increasing the overall pool of investors for these projects. With its commitment to provide advice to public sector sponsors and apply its specific expertise to engage in transactions, the CIB structures investments in a way that can work for all parties and thus fills a gap on projects that would otherwise not have been built. Through its recently announced Growth Plan, the CIB is putting sustainable finance practices into action in key sectors such as clean power, energy retrofits and zero-emission buses.

To conclude the discussion, the panelists agreed that after being largely uninterested a decade ago, Canadian private sector investors and financial institutions have become much more interested in providing the sustainable capital and financing required for a successful low-carbon transition. They agreed that the capital market mobilization research provides a strong roadmap for action and that the private sector can provide the majority of the investment funding for Canada's transition. They were optimistic because in their view, once capital shifts, it doesn't take long for different types of assets to get built and for industries to evolve. The private market is engaging in the sustainable finance trend not because it's been regulated and signalled by policymakers and decisionmakers around the world, but because market participants think it

makes good economic sense. Indeed, the panelists agreed that the private sector is driving the green finance agenda and is likely moving faster now in comparison to the public sector.

SESSION 3: ADVANCING SUSTAINABLE FINANCE THROUGH A "MADE-IN-CANADA" TRANSITION TAXONOMY AND GREEN FIXED INCOME MARKET

Highlights

- The development of a transition taxonomy is a crucial component underpinning the green, sustainable, and transition-oriented fixed income market. The creation of a taxonomy, or a united classification system, can help avoid any unnecessary fragmentation in the market. A taxonomy can help outline disclosure requirements for companies that are seeking green financing, thus reducing ambiguity and increase the amount of transition investment.
- Work is now underway to develop taxonomies that would be applied to transition financing in Canada, involving players from across the financial services industry and other sectors. To mobilize sufficient transition capital, market tools will need to be used to facilitate and start the transition.
- The private sector is not waiting for the government to start these initiatives, although government involvement will be required to promote transition finance standards that could be recognized internationally.
- Canada could be a global champion of transition financing, if it can develop a financing taxonomy and performance standards that can simultaneously: promote transition and reduce GHG emissions from energy production; meet the transition finance needs of the energy industry and its financiers in Canada; and win international acceptance.

Background

With the emergence of the global green and sustainable finance markets, many Canadian sectors will want to secure access to sustainable investment capital and a variety of green and transition financial products and services, and to fixed income markets such as green bonds, loans and mortgages. As Canada develops a classification system – or taxonomy – to create a common language for sustainable finance, a made-in-Canada taxonomy will need to also align itself with global frameworks such as the EU taxonomy, the Climate Bonds Initiative's definitions and the Green Bond Principles.

The roundtable featured the current state-of-play for a "made-in-Canada" transition taxonomy and the expansion of the green fixed income market, with issuers, underwriters and investors sharing their

experience and insight into how they have incorporated and applied taxonomy into their business models. The roundtable also explored the challenges and opportunities, as well as the short-, medium- and long-term priorities, for the public and private sectors to advance a "made-in-Canada" transition taxonomy and the expansion of the green fixed income market.

The third roundtable was moderated by PPF Fellow Glen Hodgson, PPF Fellow, who has extensive experience in both macroeconomics and international finance, including aspects of sustainable finance.

Discussion

An opening presentation by Krista Tukiainen outlined international developments in both taxonomy and standards for green bonds, and for transition finance. Voluntary rules for green bonds have existed for some time, but the green bond taxonomies and standards are quickly moving toward mandatory procedures, and perhaps even legislation, in the European Union (EU). For the past decade, the expansion of the green fixed income markets has helped finance various types of solutions towards fighting climate change. As an early mover, Europe has been at the forefront of the green fixed income market. However, other jurisdictions such as North America and the Asia Pacific region are quickly catching up in the development and harmonization of their own green, sustainable and transition taxonomies and the expansion of the green fixed income markets.

The development of a taxonomy is a crucial component underpinning the green, sustainable, and transition-oriented fixed income market. The panelists agreed that the creation of a taxonomy, or a united classification system, can help avoid any unnecessary fragmentation in the market, and reduce and avoid the implications of greenwashing. A taxonomy can help outline disclosure requirements for companies that are seeking green financing, thus reducing ambiguity, and increase the amount of ESG-investments.

The recent report by the Climate Bonds Initiative (CBI) and Credit Suisse outlines the conditions they attach to transition financing. Large GHG emitters have a vital role to play in reducing global emissions but are still largely absent from the development of green finance. This gap presents an opportunity to shape and finance their sustainable transition.

Five principles are proposed for credible transition financing:

1. In line with 1.5-degree trajectory. All goals and pathways need to align with zero carbon by 2050 and nearly halving emissions by 2030.

2. Goals and pathways based in science.

3. Offsets don't count.

4. Technological viability trumps economic competitiveness. Pathways should include an assessment of current and expected technologies, even if relatively expensive.

5. Action, not pledges. A credible transition is backed by operating metrics, not a commitment/pledge.

There are, however, gaps in this proposed transition framework, which is predicated on the availability of defined transition pathways. High-emitting industries such as oil and gas, mining, shipping, heavy industry and aviation have not yet been addressed and are still being developed.

In Canada, the Expert Panel report recommended (Rec 9.1) that support be given to the development of Canadian transition-oriented fixed income taxonomies, ideally working with other countries with similar resource endowments in scoping a "transition-oriented" taxonomy category that captures environmentally beneficial projects that do not meet international green criteria. The activities and criteria captured by the transition taxonomy will contribute to Canada's move to a net-zero economy by 2050. Despite being a resource-based economy with key GHG-emitting sectors, Canada is also a leader in developing the technological solutions needed to reach net zero. Unlike other economies in the world that are more service-oriented, Canada must manage its transition carefully in meeting its climate goals.

As discussed by Peter Johnson and the other panelists, work focused at the Canadian Standards Association and involving players from across the financial services industry and other sectors is now underway in Canada to develop taxonomies that would be applied to transition financing in Canada. It is recognized that to mobilize sufficient transition capital, market tools will need to be used to facilitate and start the transition. They have taken guidance from the Expert Panel to be additive, drawing on existing activities and frameworks like the EU and recognizing that Canada cannot stand by itself in the world as a player in the global economy.

The initial focus is to define transition finance in the Canadian market. This work could help to define an international standard and fill the gap just noted for high-intensity emitters. The group has not waited for the government to start these initiatives, although it recognizes that government involvement will be required to promote transition finance standards that could be recognized internationally. Moreover, it was emphasized that Canada could be a global champion of transition financing through institutions such as the International

Organization for Standardization (ISO). The CSA has identified and prioritized seven sectors: energy, transportation, mining, agriculture, utilities, forestry and manufacturing.

The challenge in transition finance will be to develop a Canadian financing taxonomy and performance standards that can simultaneously:

- promote transition and reduce GHG emissions from energy production;
- meet the transition finance needs of the energy industry and its financiers in Canada, but also:
- win international acceptance and keep the door open to international sources of capital that could help finance the transition.

Unlike the EU which has an extensive, robust, and detailed regulatory requirement and framework for sustainable finance, Canada does not have a sustainable finance framework. The initiative undertaken by the CSA is not intended to create policy; rather it's intended to create a set of financial frameworks that can be implemented by Canadian and global financial systems to mobilize capital to support Canada's transition.

SESSION 4: SUPPORTING CANADA'S OIL AND GAS INDUSTRY THROUGH SUSTAINABLE FINANCE

Highlights

- The oil and gas sector is a major employer, innovator, and exporter, but it is also one of Canada's largest sources of GHG emissions from production to usage.
- The sector needs a united narrative defined by industry players, the investment community and governments in order to unlock the capital needed to support the sector's transition.
- Businesses are looking for governments to provide improved policy certainty to help facilitate the transition to low carbon for Canada's oil and gas sector. Greater policy and regulatory certainty would improve the oil and gas industry's ability to attract the capital needed to support its investment in energy sector transition.
- The investment community has an appetite for involvement in a low-carbon transition in Canada's oil and gas sector, but the competitive risk-return profile must be presented through greater transparency.

Background

The oil and gas sector is a crucial pillar of Canada's economic foundation. As David Dodge, the former Governor of the Bank of Canada, noted in a recent paper for the PPF, oil and gas contributed net exports of

$76.6 billion in 2019. Quite simply, a strong and environmentally sustainable energy sector is essential for Canada to have a vibrant and growing economy. Oil and gas is a significant component of this sector and therefore needs to be a key player in the discussions on sustainable finance.

However, the sector is also one of Canada's largest sources of GHG emissions from production to usage. As publicly traded entities, Canadian oil and gas companies must deal with intense pressures on multiple fronts. This can be in the form of competition from major sovereign producers (such as state-owned companies in Russia, China and the Middle East), or the need to address growing societal pressures and changing investors' attitudes as they relate to climate change.

At the same time, the oil and gas industry is playing, and must continue to play, a central role in the global energy transition to a low-carbon future. But for that to happen, the sector needs the investment necessary to meet the challenge. The path forward requires sustainable finance that supports the research, development and technology adoption required to achieve a low-emission, globally competitive oil and gas sector.

The fourth roundtable was moderated by Joseph Lougheed, Partner, Dentons Canada LLP, who brought considerable legal expertise in the oil and gas sector to the discussion.

Discussion

As a crucial pillar of Canada's economic foundation, the oil and gas sector is a major employer, innovator, and exporter. However, the sector is also one of Canada's largest sources of GHG emissions from production to usage. As part of Canada's climate goals, many oil and gas companies have made a pledge to achieve net zero by 2050, committing to transform their structure and operations. As a capital-intensive industry, the oil and gas sector needs a united narrative defined by industry players, the investment community and governments in order to unlock the capital needed to support the sector's transition.

The panelists provided a number of perspectives on how to provide financing for an oil and gas transition to lower emissions. Davinder Valeri from CPA Canada emphasized that there's no need to reinvent the wheel. A wealth of actionable work and recommendations is already available, including emerging research on capital mobilization, and the recommendations and analysis in the Expert Panel on Sustainable Finance's report. Canada can build on a strong foundation of work that's already been completed over the course of a number of years.

As part of Canada's transition to a low-carbon economy, the transition of the oil and gas sector is an issue of national interest for all Canadians and all sectors, given its composition in Canada's energy mix and the importance of the sector in Canada's overall economy. Moreover, there was recognition by the panelists that

the oil and gas sector will continue to be a critical part of Canada's economy by 2030 and 2050. However, the products derived from the sector will be used very differently from how they are used today.

Most industry players believe Canada will be extracting and using fossil fuels in a net-zero economy. The sector has been steeped in competition for decades, but now the largest Canadian players have an incentive to come together and align their efforts collectively. There's a need to foster industry-wide collaboration and alignment during the journey to net-zero.

Businesses are looking for governments to provide improved policy and regulatory certainty to facilitate the transition for Canada's oil and gas sector. Given the importance of the sector to the Canadian economy and the long-term capital-intensive nature of its transition to a low-carbon emitter, stakeholders, especially investors, expect governments of all levels to implement coordinated policies designed to support capital flows to finance the sector's transition. Providing greater policy and regulatory certainty would improve the oil and gas industry's ability to attract the capital needed to support its investment in energy-sector transition.

A common pathway or united narrative needs to be defined by industry players and the investment community, one that will be supported nationally and internationally. Davinder Valeri emphasized that the development of such a narrative should be fact-based, independent and neutral, with engagement across all sectors. Meaningful engagement of key stakeholders such as First Nation and marginalized communities will help enhance credibility and ensure a just transition for all Canadians. Some panelists thought there was a need for a national energy strategy, both for the transition to net-zero emissions and also for the long-term transition for the overall economy.

As noted by our panelists from the financial sector, there is appetite from the investment community to be involved by sharing their knowledge and expertise to support a low carbon transition in Canada's oil and gas sector. However, the competitive risk-return profile must be presented through greater transparency. Investors need detailed disclosures that outline de-carbonization targets and implementation plans, together with a diversification plan for growth beyond combustible fossil fuels, that looks more comprehensively at Canada's energy sector. To better position themselves to attract capital, the Canadian oil and gas companies are encouraged to increase the quality of disclosure of their short-and long-term strategies to compete in the low-carbon future. Many investors have noted that the Task Force on Climate-related Financial Disclosures (TCFD) is a favoured recommended framework for com- panies to use. Both the investment community and the oil and gas industry believe there are many areas of alignment on the pathway to net-zero, and recognize Canada's low-carbon transition goes well beyond just the oil and gas sector.

In terms of the scale of transition financing required, research at the Queen's Institute on Sustainable Finance estimated a need to mobilize about $26 billion to reduce emissions in the oil and gas sector by 30 percent by

2030. Ryan Riordan, co-author of the report and Associate Professor at the Smith School of Business, emphasizes that while that sounds like a big number, it is only half the amount estimated for the transportation sector which is roughly the same economic size. Technology costs in the oil and gas sector are estimated to be significantly lower than the technology costs or the abatement costs in the transportation sector.

Recent global developments on sustainable finance regulations and policy, such as the EU green taxonomy and the UK and New Zealand's mandatory climate-related financial disclosure, provide a strong impetus for Canada to create a unified approach in the national interest. Canada has a very small window of time to make decisions on transition financing for the oil and gas sector. Canada has the opportunity to be a leader in the global low-carbon transition by de-carbonizing its energy sector, fostering innovation and exporting our solutions to support the decarbonization of other resource-dependent countries: by leveraging existing foundation work; developing a transition taxonomy; creating a regulatory framework that provides incentives for capital investments; scaling clean tech innovations; and fostering and sustaining partnerships between government and the private sector. Canada can achieve its 2030 and 2050 climate goals while becoming a global leader on the pathway to net-zero. In short, Canada needs to decide whether we are going to be policy-makers or policy-takers.

APPENDIX

Presentation & Panelists for Session 1: Advancing Climate Data and Analytics in Canada To Enable Sustainable Finance

- Barbara Zvan, President and Chief Executive Officer at University Pension Plan Ontario
- Katherine Monahan, Senior Research Associate, Smart Prosperity Institute
- Dalia Al-Ali, Senior Project Manager, Canadian Water Network
- Susan Ancel, Director, One Water Planning, EPCOR Water Services Inc.
- Andrew Hall, Director, Sustainable Finance, TMX Group
- Rob Wesseling, President and Chief Executive Officer, The Co-operators Group Limited.
- Robert Litterman, Chairman of the Risk Committee and Founding Partner of Kepos Capital

Presentation & Panelists for Session 2: Developing A Capital Mobilization Plan for a Transition to a Low-Carbon Economy

- Sean Cleary, Executive Director, Institute of Sustainable Finance and Professor of Finance, Smith School of Business, Queen's University
- Ryan Riordan, Director of Research, Institute of Sustainable Finance and Professor of Finance, Smith School of Business, Queen's University
- John Casola, Chief Investment Officer, Canada Infrastructure Bank
- Richard Manley, Managing Director, Head of Sustainable Investing, CPP Investments
- Deborah Ng, Head of Responsible Investing, Ontario Teachers' Pension Plan
- Ben Vaughan, Chief Operating Officer, Infrastructure, Brookfield Asset Management
- Amy Liane West, Global Head of Sustainable Finance and Corporate Transition, TD Securities
- Jim Leech, Chancellor of Queen's University, former President and CEO of the Ontario Teacher's Pension Plan and Chair of the Institute of Sustainable Finance Advisory Board

Presentation & Panelists for Session 3: Advancing Sustainable Finance Through a "Made-In-Canada" Transition Taxonomy and Green Fixed Income Market

- Krista Tukiainen, Head of Research, Climate Bonds Initiative
- Peter Johnson, Chair, CSA Technical Committee, Canadian Transition Taxonomy and Sustainable Finance and Director, Environmental and Social Risk and Opportunity of Scotiabank.

- Siddharth Samarth, Executive Director, Sustainable Finance, CIBC Capital Markets, CIBC
- Ian Lorimer, Vice President, Finance and Chief Financial Officer, FortisBC
- Alison Schneider, Vice-President, Responsible Investment, Alberta Investment Management Corporation
- Gordon Beal, Vice President, Research Guidance and Support, CPA Canada
- Glen Hodgson, PPF Fellow

Presentation & Panelists for Session 4: Supporting Canada's Oil and Gas industry through Sustainable Finance

- Joseph Lougheed, Partner, Dentons Canada LLP
- Davinder Valeri, Director, Strategy Risk & Performance, CPA Canada
- Ryan Riordan, Associate Professor & Distinguished Professor of Finance, Director of Research, Institute for Sustainable Finance, Queen's University
- Janet Annesley, Senior Vice President, Corporate Affairs & Human Resources, Husky Energy
- Kent D. Kaufield, Managing Partner – Energy, EY Canada
- Kent Ferguson, Co-Head, Global Energy, RBC Capital Markets


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