OFFICE OF THE SUPERINTENDENT OF FINANCIAL INSTITUTIONS (OF SI) DRAFT GUIDELINE B-15: CLIMATE RISK MANAGEMENT

COMMENT LETTER PREPARED BY THE PRINCIPLES FOR RESPONSIBLE INVESTMENT ASSOCIATION (PRI)

30 September 2022

To inform this briefing, the following investor group has been consulted: PRI Global Policy Reference Group. This consultation is not an endorsement or acknowledgement of the views expressed in this briefing.
INTRODUCTION

The Principles for Responsible Investment (PRI) works with its international network of signatories to put the six Principles for Responsible Investment into practice. Its goals are to understand the investment implications of environmental, social and governance (ESG) issues and to support signatories in integrating these issues into investment and ownership decisions. The PRI acts in the long-term interests of its signatories, of the financial markets and economies in which they operate and ultimately of the environment and society as a whole.

The six Principles for Responsible Investment are a voluntary and aspirational set of investment principles that offer a range of possible actions for incorporating ESG issues into investment practice. The Principles were developed by investors, for investors. In implementing them, signatories contribute to developing a more sustainable global financial system.

The PRI develops policy analysis and recommendations based on signatory views and evidence-based policy research. The PRI welcomes the opportunity to provide comment on the OSFI Draft Guideline B-15: Climate Risk management.

ABOUT THIS CONSULTATION

The Office of the Superintendent of Financial Institutions (OSFI) invites public comment on Draft Guideline B-15: Climate Risk Management, which sets out expectations related to federally regulated financial institutions’ (FRFIs) management of climate-related risks, including mandatory climate-related financial disclosures. The stated objective of the guideline is to strengthen FRFI’s governance and risk management practices and reinforce public confidence in the Canadian financial system.

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The PRI welcomes OSFI’s signal to the Canadian and international markets by proposing mandatory climate-related financial disclosures for banks and insurers based on the TCFD Guidance on Metrics, Targets and Transition Plans and the International Sustainability Standards Board’s (ISSB) Exposure Draft on Climate Related Disclosures. PRI strongly supports the ISSB’s mission to deliver a high-quality global baseline of sustainability-related disclosures and encourages local regulators and standard setters to engage closely with the ISSB with the goal to develop a global baseline for corporate sustainability reporting.

The PRI’s key recommendations to OSFI are:

■ Coordinate with the ISSB, the Canadian Sustainability Standards Board (CSSB) and the Canadian Securities Administrators (CSA) to develop and implement a coherent global baseline for corporate sustainability reporting
■ Ensure the final B-15 guideline reflects at minimum the ISSB Climate-related Disclosure global baseline and implement disclosure for issuers in a timely manner
■ Require disclosure be included as a note to annual financial statements¹
■ Require transition plans be aligned with a fixed, defined target such as the Paris Agreement²
■ Encourage voluntary scenario analysis for all disclosing entities at the time of initial implementation³

DETAILED RESPONSE

The PRI welcomes OSFI’s signal to the Canadian and international markets in aligning the B-15 guideline with the most recent TCFD guidance on Metrics, Targets and Transition Plans, and by referencing disclosure against ISSB Cross-Industry Metrics and Industry-Specific Metrics for banks and insurers as they relate to climate change.

OSFI should uphold its domestic leadership and commit to the timely implementation of the B-15 guideline, as any further delays on climate policy action will continue to undermine credibility and elevate economic risk to the Canadian economy.

¹ See PRI’s recommendation to the Securities and Exchange Commission File No. S7-10-22: The Enhancement and Standardization of Climate Related Disclosures for Investors
² See PRI’s recommendation to the IFRS S2 Climate-related Disclosures
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The PRI supports OSFI’s general expectations that FRFIs disclose relevant, verifiable information, explain assumptions, as well as inclusions and exclusions of any climate-related risks or issues. Climate-related information merits the same level of assurance and accountability currently provided to similarly considered financial information, so the PRI recommends that disclosures be included as a note to annual financial statements, to ensure they are subject to board scrutiny and approval. This recommendation reflects the PRI’s response to the Securities and Exchange Commission on Climate-related disclosures.4

The PRI supports the proposed disclosures on transition plans and recommends that transition plans be aligned with a fixed, defined target such as the Paris Agreement. A company’s climate transition plan is a time-bound action plan that outlines how the organisation will pivot its existing assets, operations and entire business model towards the stated target or objective. A credible transition plan should include disclosures that:

- Describe the strategy of the organisation to pivot towards a net-zero future with near term (every five years) science-based targets consistent with the long-term objective of net zero by 2050.
- Contain verifiable and quantifiable Key Performance Indicators (KPIs) which measure the success of an organisation’s climate transition strategy and track progress.
- Provide accountability. The plan has clearly defined roles and responsibilities, including an effective governance mechanism. An organisation’s plan should be reviewed and updated regularly through the annual reporting cycle.

The FRFI should also disclose the individuals and governance structures responsible for successfully implementing the transition plan, including information on:

- Skills and training – how the organisation will ensure it has the necessary in-house capacity to deliver on the transition plan; and
- Remuneration – how financial incentives align with the successful implementation of the transition plan, or an explanation if there is no link between the transition plan and remuneration.

On the final point, governance disclosures are an important proxy indicating how aligned board and management incentives are to achieving an entity’s transition plan.

While the PRI also supports the inclusion of climate scenario analysis in the guideline, disclosing entities should be strongly encouraged to begin undertaking scenario analysis on a voluntary basis until the exercise is phased in as mandatory. Forward looking as well as static disclosures, such as emissions data, are urgently needed by investors since climate change is a risk that will grow over time. Therefore, sole reliance on historical data provides a partial and misleading view of a

4 See PRI’s recommendation to the Securities and Exchange Commission File No. S7-10-22: The Enhancement and Standardization of Climate Related Disclosures for Investors (p. 7)
company’s position in relation to this business issue. Companies and investors naturally have a view of the future with respect to market trends, key risks, and growth opportunities. The function of climate-related scenario analysis is to provide means for incorporating climate change into existing views and assessing the resilience of the business strategy to a range of plausible future scenarios.

Disclosure on climate scenarios is important to investment and voting decisions as it demonstrates the degree of attention by companies to the issue and an understanding that the importance of climate change will not be static. For disclosure on scenario analysis to be useful for investor decision-making, at a minimum, companies reporting to be conducting climate scenario analysis should disclose:

- how a company assessed its potential climate-related future(s) and the insights it gleaned from scenario analysis;
- what changes, if any, the company may be considering to its business model in response to its scenario analysis;
- how resilient management believes the company’s strategy is to various future climate states; and
- where the uncertainties are regarding the company’s strategy and its resilience to climate related risks and opportunities.

Therefore, disclosure from climate scenario analysis is not necessarily a quantitative exercise but could be narrative based intended to set in motion a learning process to build understanding of how climate-related risks and opportunities could evolve over time. As issuers gain experience, the use of more quantitative information with greater rigor and sophistication may be warranted. Finally, what is material for financial markets is not only the temperature outcome of a particular climate scenario, but also whether the path to this outcome is orderly or disorderly.

Until OSFI has finalised its means for assessing FRFIs approaches, the PRI recommends that OSFI specifies interim guidance using the following families of climate scenarios, which are relevant to both companies and investors, as scenarios to be reported against where appropriate:

- a measured, orderly transition, which takes place with climate policies being introduced early and becoming increasingly more stringent, in line with national and global emissions reduction targets;
- a sudden, disorderly transition, which takes place with climate policies and wider action on climate change not happening until late (for example, introduced around 2030) – this scenario gets towards, but does not achieve, the climate goals set out in the Paris Agreement and is characterized by a higher level of transition and physical risk than in an orderly transition; and
- ‘no transition’, which assumes only currently implemented policies are preserved, current commitments are not met, and emissions continue to rise (i.e., a 4°C or higher climate

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See PRI’s recommendation to the IFRS S2 Climate-related Disclosures
scenario) – this would mean climate goals are missed and physical risks are high, accompanying severe social and economic disruption.

Given the plausibility of the above scenarios, this reporting would provide investors with needed information on enterprise value impactions of various potential futures for a reporting FRFI. Suggested disclosures would provide investors with information on scenarios used, scope of risks and operations covered in the analysis, time horizons, assumptions and uncertainties considered (covered in disclosures on results of the resilience assessment).

The PRI has experience of contributing to public policy on sustainable finance and responsible investment across multiple markets and stands ready to support the work of the Office of the Superintendent of Financial Institutions further to improve sustainability disclosure in Canada.

Please send any questions or comments to policy@unpri.org.
More information on www.unpri.org