

White Paper: Aligning Finance with Climate Commitments

Executive Summary

Financial institutions, whether public or private, are awakening to the fact that they are on the front lines of climate risk. Around the world, advanced economies are implementing a profusion of initiatives arising from central banks, financial regulators and private actors. Canada must follow suit and accelerate pace if we want to be part of the emerging low-carbon knowledge economy.

Early initiatives were anchored in the voluntary disclosure and risk management paradigm, but they have unfortunately not succeeded in unravelling the vicious cycle in which financial systems are trapped. Indeed, investments in emissions-intensive sectors contribute to climate impacts that, due to their cumulative, irreversible, and highly uncertain nature, present a threat to the stability of the financial system.

Sustainable finance is the key lever to influence and bring to reality sustainable outcomes through integrating climate change knowledge into the core of financial decision-making. The best way to minimize the risks that climate change poses to the financial system is to limit the risks that financial institutions pose to the climate system. Ambitious and coherent legislation requiring that finance proactively aligns with achieving global climate commitments would create enormous clean sustainable investment opportunities that could spur a new era of prosperity. Industrial accidents, environmental emergencies and financial crises have shown the limits of industry self-regulation; the climate crisis requires governments to lead by example by defining the cornerstones of a climate-friendly level playing field for markets to deploy the human ingenuity that has gotten us out of crisis before.

Based on international best practices and leading thinkers in the field, we propose a set of recommendations that define what leap frogging from laggard to leader would look like for Canada in terms of ensuring a climate-aligned stable low-carbon financial system.



Recommendations

- 1 All entities, including financial institutions, must be aligned with climate commitments.
- 2 Avoidance of carbon lock-in, the entrenchment of our dependence on fossil fuels, must be a consideration in all financial decisions.
- 3 Require responsible target-setting and planning, including compliance with a global carbon budget consistent with the Paris Agreement and mandatory consideration of all life cycle emissions.
- 4 Capital requirements must account for systemic climate risks generated by the activities of financial institutions.
- 5 Recognize climate change as a superseding interest relevant to all directors' duties.
- 6 Avoid conflicts of interest and leverage climate expertise, experience and knowledge.
- 7 Respect the rights of Indigenous Peoples' and other environmental and social goals.
- 8 Develop a comprehensive action plan to align all financial products with climate commitments.

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