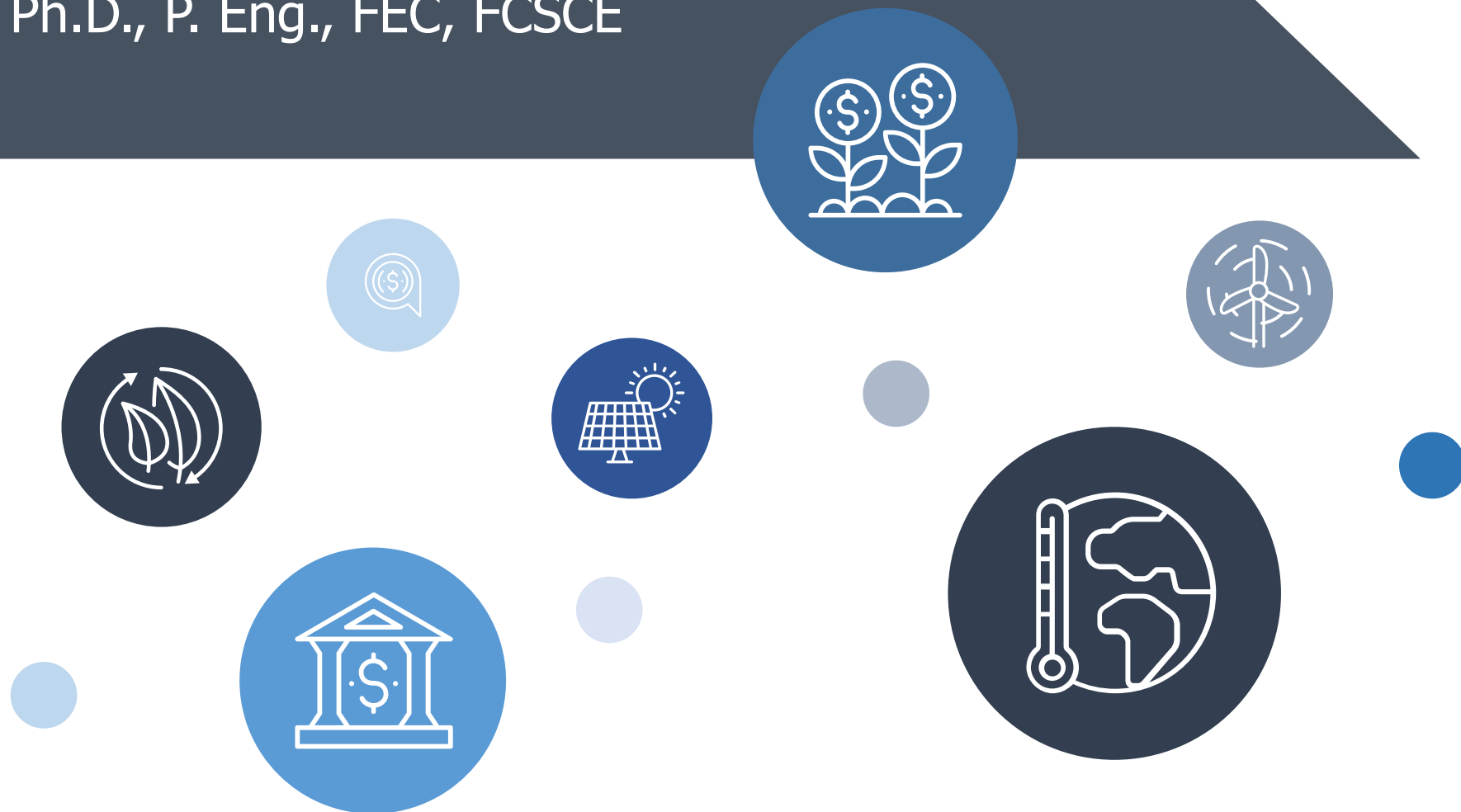


The Climate-Aligned Finance Act (CAFA)

Senator Rosa Galvez, Ph.D., P. Eng., FEC, FCSCE

May 2022



Rationale

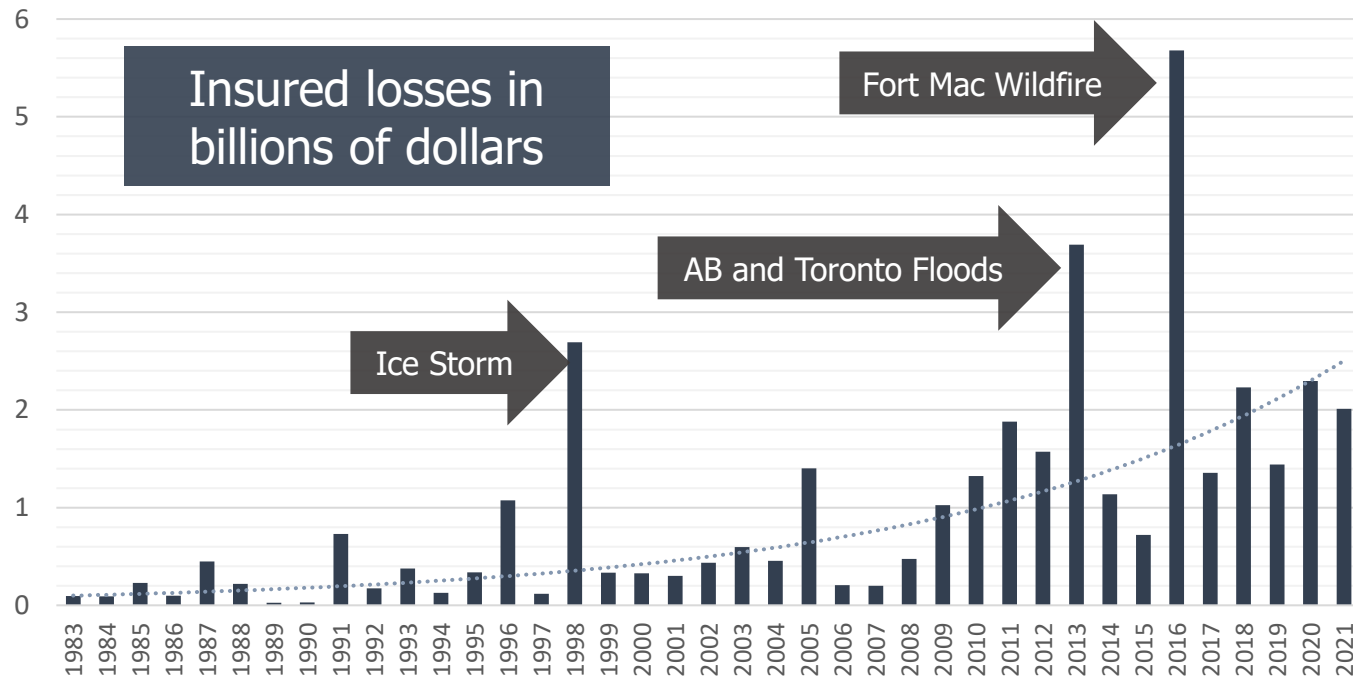
Climate change is **impacting ALL Canadians today**

Extreme
Weather

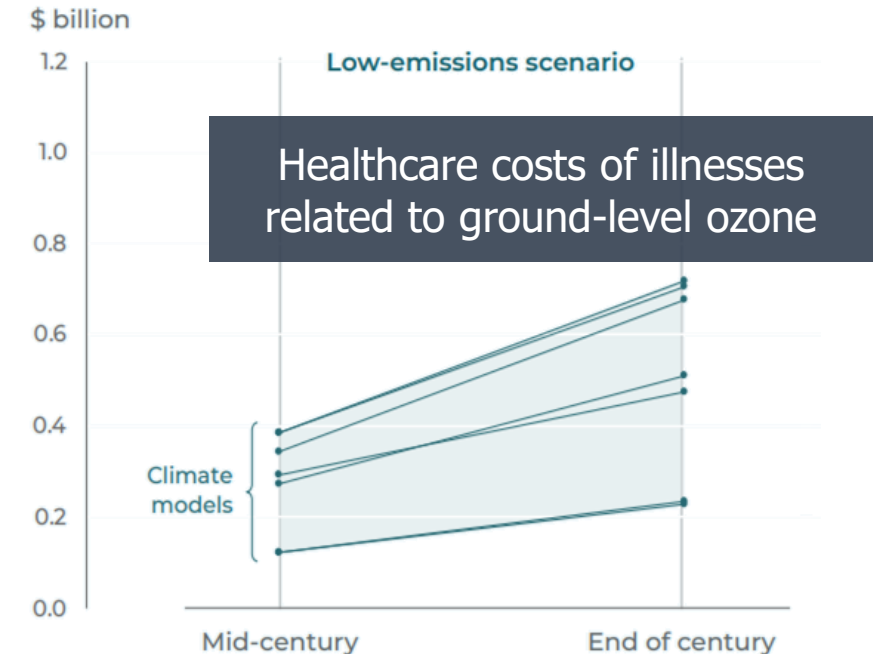
Health
Impacts

Economic
Costs

Unequal
Impacts



Source: Insurance Bureau of Canada, CatIQ

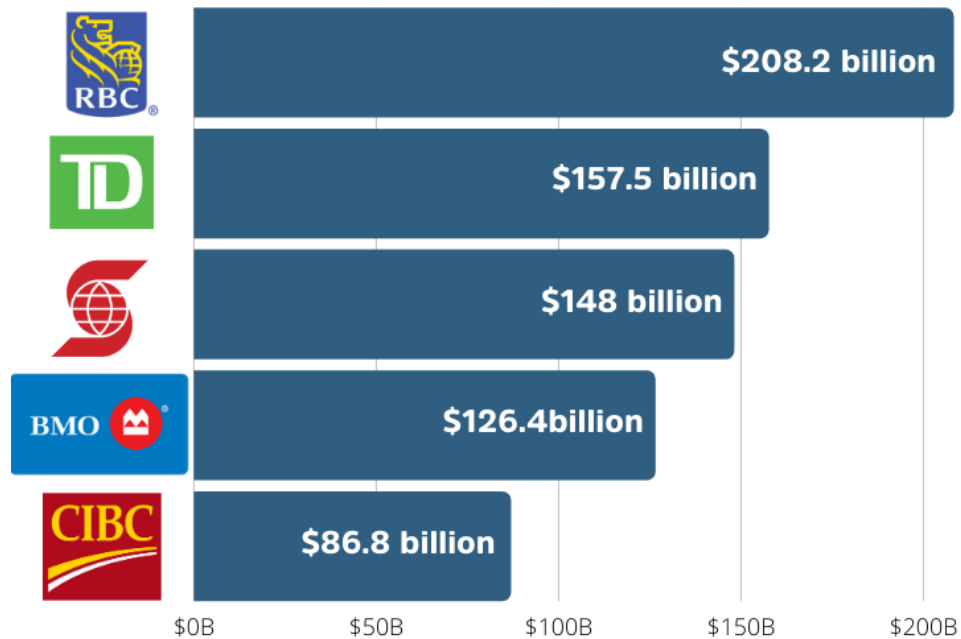


Source: Canadian Climate Institute

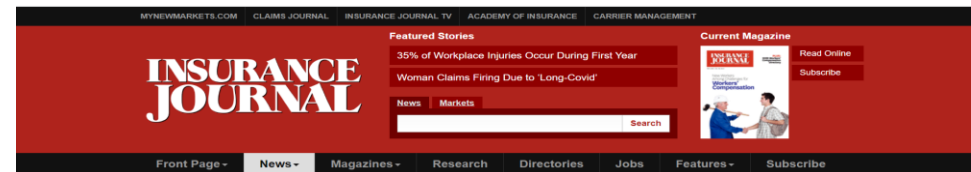
Rationale

Our financial system is **fueling the climate crisis**

Fossil fuel investments since 2016



Source: Rainforest Action Network



Aspen Becomes 17th Insurer to Stop Insuring Canada's Trans Mountain Pipeline

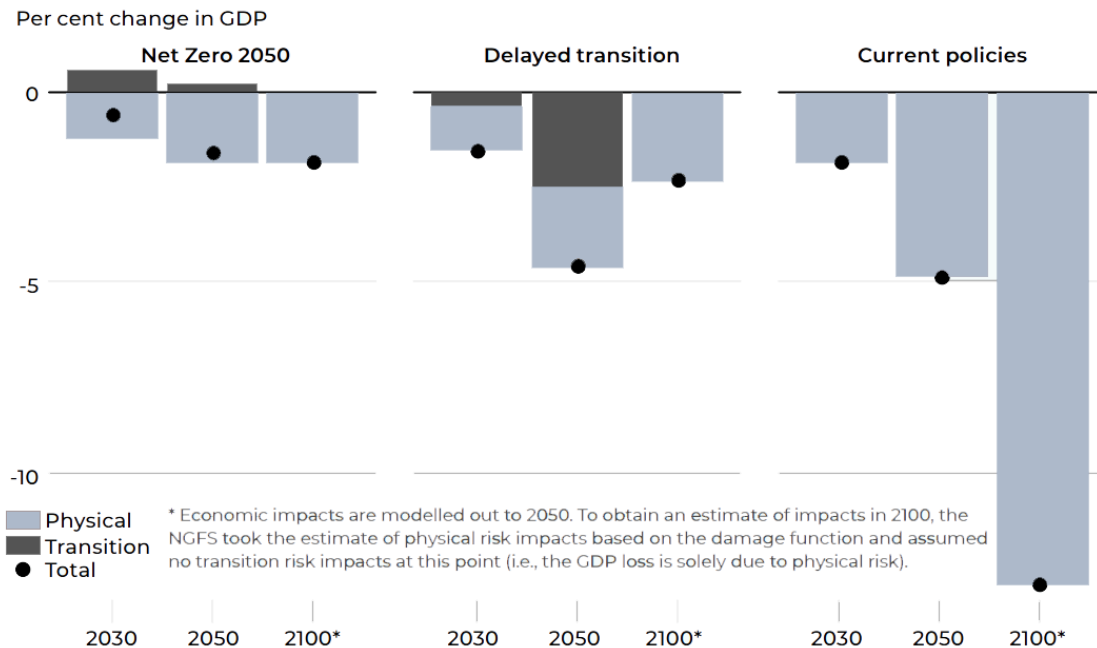
By L.S. Howard | April 21, 2022

At the end of 2020, **CPPIB** and **CDPQ** had public equity shares in oil and gas totaling **\$3.68 billion** and **\$5.1 billion** respectively

Source: Corporate Mapping Project

Benefits of Ambitious Action

An ambitious transition costs **less** than inaction



Source: Canadian Climate Institute

Well-designed policies can:

- Drive down the costs of reducing emissions
- Create the conditions for a just transition
- Make the government and financial institutions more transparent and accountable
- Generate finance for truly clean technologies
- Contribute to broader sustainable development efforts
- Carry co-benefits for other social and governance goals

White Paper

Aligning Canadian Finance with Climate Commitments



[Click here to read the
White Paper in full](#)

Climate-Aligned Finance Requires:

- Avoidance of carbon lock-in;
- Target-setting and planning in compliance with a global carbon budget consistent with the Paris Agreement and mandatory consideration of all life cycle emissions;
- Capital requirements to account for systemic climate risks generated by the activities of financial institutions;
- Respect the rights of Indigenous Peoples' and other environmental and social goals;
- Avoid conflicts of interest and leverage climate expertise, experience and knowledge; and
- Recognize climate change as a superseding interest relevant to all directors' duties.

Expert Consultations

We held **four** large sessions with experts in sustainable finance from around the world in addition to countless smaller and one-on-one sessions.

In total, we convened and consulted **dozens of sustainable finance experts** to provide input on CAFA's development.

The results are synthesized into the document "**What We Heard**" published in our web page.



Goals and Objectives - Alignment Requirements

CAFA aligns the activities of federal financial institutions and other federally regulated entities with the superseding economic and public interest matter of achieving climate commitments.

It aims to make timely and meaningful progress towards safeguarding the stability of both the financial and climate systems. To do so, it recognizes the systemic risks posed to all sectors of the economy by not aligning financial flows with climate commitments.

Structure of the Proposed Bill

Enacting Climate Commitments Act (ECCA) (shell act)

Part 1: *Climate-Aligned Finance Act (CAFA)* (embedded act)

Definitions and purpose

Part 1

Alignment requirements

Part 4

Expertise, conflicts of interest, and duties

Part 2

Reporting requirements

Part 5

Enforcement and orders

Part 3

Capital adequacy requirements

Part 6

Financial products action plan

Part 2

Amendments to Existing laws:

- Bank of Canada
- Export Development Canada
- Parent Crown Corporations
- Office of the Superintendent of Financial Institutions
- Public Sector Pension Investment Board
- Business Development Bank of Canada
- Canada Infrastructure Bank

Coming into force of CNZEAA S.23

Part 3: Reviews and Reports

Part 4: Canada Pension Plan Investment Board

Part 5: Coming into Force

The Climate-Aligned Finance Act (CAFA)

Specifically, CAFA does the following:

- 1 Establishes a duty for directors, officers and administrators to align entities with climate commitments
- 2 Aligns purposes, including market oversight by OSFI, with climate commitments
- 3 Obligates entities to develop action plans, targets and progress reports on meeting climate commitments through annual reporting requirements
- 4 Ensures climate expertise on certain boards of directors and avoids conflicts of interest
- 5 Makes capital adequacy requirements proportional to microprudential and macroprudential climate risks generated by financial institutions
- 6 Requires a government action plan to align financial products with climate commitments
- 7 Mandates timely public review processes on implementation progress to ensure iterative learning

1. Superseding Public Interest Matter and Duty to Align with Climate Commitments

CAFA creates a new duty for directors **to exercise their powers in a way that enables their organization to be in alignment with climate commitments.**

The duty is superseding – directors must give **precedence** to that duty over their other duties.



This applies to all entities, including the Bank of Canada and OSFI.

2. Align Purposes with Climate Commitments

The Act aligns following entities with climate commitments:

- Bank of Canada
- Parent Crown corporations (through the Financial Administration Act)
- OSFI
- Public Sector Pension Investment Board
- Business Development Bank of Canada
- Canada Infrastructure Bank
- Export Development Canada
- Canada Pension Plan Investment Board



By adding the following (usually) under the 'Purpose' section:

Climate commitments

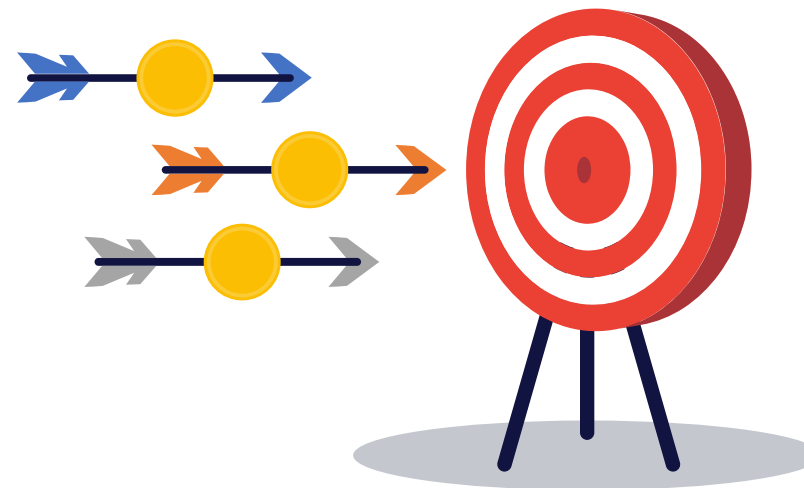
The Corporation may only exercise its powers in a way that enables it to be an entity that is in alignment with climate commitments as described in section 4 of the *Climate-Aligned Finance Act*.

3. Target-Setting, Planning, and Reporting

Organizations set their own **targets** at 5 years intervals starting in 2025 and continuing to 2050.

Plans must include:

- Measures to prioritize and encourage immediate and ambitious action
- Emissions reductions within the value chain
- Innovation to replace emissions-intensive activities
- Operational and capital allocation
- Consideration of executive compensation
- Consideration of strategy to ensure the achievement of targets



Reports must:

- Use the best available scientific evidence
- Demonstrate how they align with climate commitments
- Provide details on emissions, targets, plans, and progress

4. Conflicts of Interest and Climate Expertise

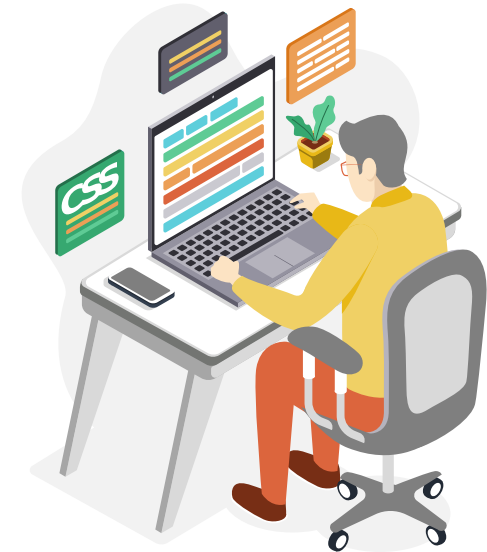
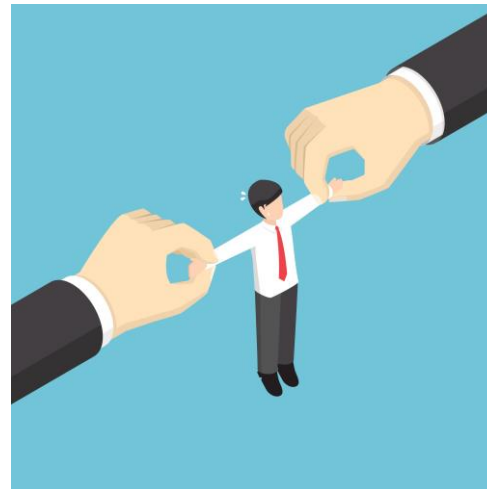
Conflicts of Interest

Board members of reporting entities can't work for, provide services for, lobby for in the past five years, or actively control stock in an organization that is not in alignment with climate.

Also, board appointees for Crown corporations can't accept gifts, etc. from non-aligned entities.

Leveraging Climate Expertise

At least one climate expert on the board of directors for major Crown corporations and pensions boards.



5. Capital Adequacy Requirements

CAFA requires OSFI to develop **new guidelines for capital adequacy** to help offset the increased risk of banks' investments in emissions-intensive activities.

The act also empowers OSFI to use its existing measures to **enforce** these new requirements.

A **second set** of guidelines regarding funding requirements for pension plans, insurance companies and other entities that report to OSFI will be published within 6 months of the first set.



6. Government Action Plan

CAFA requires a **government financial products action plan** which identifies other ways to support climate action and commitments alignment including:

- Collaborate with provinces regarding securities regulation and consumer protection
- Changes to taxation, including removal of subsidies
- Consultation with various federal institutions and persons with climate expertise
- Criteria for identifying financial products whose purposes are aligned with climate commitments
- Mechanisms to make sure proceeds aren't greenwashed

The plan must be published within one year of coming into force.



7. Reviews and One-Time Reports

One-Time Reports

1. A report by the **Minister of Finance** regarding the perspectives of Indigenous Peoples on various climate finance subjects.
2. A report by the **Bank of Canada** about whether monetary policy aligns with climate commitments.

Both reports tabled within two years of royal assent.

Reviews

1. **Independent review** of the Act and its administration every three years.
2. Comprehensive **Parliamentary review** of the Act's provisions and their operation every three years.
3. Annual **implementation review** by OSFI and Minister of Finance for their respective oversight responsibilities.

Special Thanks to All Collaborators

The Concordia Sustainability Ecosystem



JOHN & MOLSON
SCHOOL OF BUSINESS

Prof. **Amr Addas**, Strategic Advisor for Sustainability

Amy Nguyen, Sustainability Coordinator

The Trottier Family Foundation



Éric St-Pierre, Executive Director
Flavie Desgagné-Éthier, Climate Program Director



Links and Resources

- [Climate-Aligned Finance landing page at RosaGalvez.ca](#)
- [Text of Bill S-243](#)
- [CAFA Legislative Overview](#)
- [White Paper: Aligning Canadian Finance with Climate Commitments](#)
- [What We Heard: Consultations on Aligning Canadian Finance with Climate Commitments](#)
- [Organizations List: Who does CAFA apply to?](#)
- [Press Release: Introduction of CAFA](#)
- [Senator Galvez' second reading speech \(April 7, 2022\)](#)

Thank you!

And thanks to my incredible team:

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#CAFA

