# OVERVIEW OF CHANGES TO THE *CLIMATE-ALIGNED FINANCE ACT*

## Explanatory Document – October 2025

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# Introduction

Following the 2025 federal election, a new parliamentary session has started and bills that died on the Order Paper after the January 6 prorogation can now be reintroduced.

I introduced CAFA (Bill S-243) on March 24, 2022, after identifying significant gaps in Canada's climate plan and sustainable finance policy which were detailed in a white paper on *Aligning Canadian Finance with Climate Commitments*. The objective of this act is to align the activities of federal financial institutions and other federally regulated entities with the superseding economic and public interest matter of achieving our climate commitments. It aims to make timely and meaningful progress toward safeguarding the stability of both the financial and climate systems. It recognized the systemic risks posed to all sectors of the economy by not aligning financial flows with climate commitments.

After being referred to the Standing Senate Committee on Banking, Commerce and the Economy in June 2023, a study of the Bill commenced in November 2023. Ultimately, the Bill stalled in committee in early May 2024—after hearing from 14 witnesses in 6 committee meetings—until it was dropped off the Order Paper when the first session of the 44th Parliament was prorogued on January 6, 2025.

Although CAFA has been referred to as a "gold-standard bill," it has also faced significant pushback from Senators, Members of Parliament, and parts of the financial sector. Critics of the bill have argued that CAFA is too broad, overarching, and prescriptive. These critics stalled CAFA and prevented it from moving forward.

To move CAFA forward in the 45th Parliament, we have made three main changes to address feedback received during committee hearings and consultation meetings. Additionally, we note that other minor changes have been made to the act.

The need to align Canada's financial institutions with its climate commitments is as great as ever. We must continue fighting for a financial system that is sustainable, inclusive, and fair.

Sincerely,

Senator Rosa Galvez.

## Amendment 1: Capital Risk-Weight Requirement (Clause 9(1))

CAFA originally **required** that the Office of the Superintendent of Financial Institutions (OSFI) develop guidelines for capital adequacy for banks that account for exposures and contributions to climate-related risks. CAFA **required** that these guidelines include increased capital-risk weights for financing exposed to acute transition risks, and asked OSFI to **consider** "a risk weight of 1,250% for any loan, bond or derivative exposure to new fossil fuel resources or infrastructure" and "increasing risk weights to 150% or more for any loan, bond or derivative exposure to any fossil fuel activity," among other considerations.

We received feedback to the effect that Parliament should not impose specific capital risk weights on OSFI, as OSFI is best positioned to make decisions on risk and should not be constrained by legislation in its decisions. It is worth noting that **the legislation does not require OSFI to impose these risk weights but rather asks OSFI to consider them when developing capital adequacy guidelines**. Nevertheless, critics have argued that top-down directions on how capital should be allocated in a financial institution, rendered outside the broad, comprehensive framework for risk management OSFI has set up, may produce unintended consequences. Much of the criticism of the bill has been leveled at this section. We have therefore removed the specific capital risk-weights.

| Original version | Amended version |
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| **9 (1)** The Superintendent of Financial Institutions must develop guidelines for capital adequacy for a bank, an authorized foreign bank or a bank holding company and its subsidiaries within the meaning of the *Bank Act*, and those guidelines must account for exposures and contributions to climate-related risks and include<br>**(a)** increased capital-risk weights for financing exposed to acute transition risks, considering<br>i. a risk weight of 1,250% for any loan, bond or derivative exposure to new fossil fuel resources or infrastructure,<br>ii. increasing risk weights to 150% or more for any loan, bond or derivative exposure to any fossil fuel activity, | **9 (1)** The Superintendent of Financial Institutions must develop guidelines for capital adequacy for a bank, an authorized foreign bank or a bank holding company and its subsidiaries within the meaning of the *Bank Act*, and those guidelines must account for exposures and contributions to climate-related risks and provide for<br>**(a)** increased capital-risk weights for financing exposed to acute transition risks, considering<br>i. higher risk, including a risk of stranded assets, for any loan, bond or derivative exposure to any fossil fuel activity or new fossil fuel resources or infrastructure,<br>ii. differentiation in transition-risk intensity |

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| iii. differentiation in transition-risk intensity among oil, gas and coal exposures, and<br>iv. the existence of short-term climate action plans aligned with climate. | among oil, gas and coal exposures, and<br>iii. the existence of short-term climate action plans in alignment with climate commitments; |

# Amendment 2: Appointment of Board Members (Clause 13)

In its original form, CAFA **prevents** a person from being appointed to the board of a reporting entity (an entity that has certain reporting obligations under CAFA, defined in clause 2) under certain conditions. It is unusual for corporate laws to prevent a person from sitting on a board, unless that person is incapacitated or a minor. CAFA's approach is perhaps novel in Canada. This approach has therefore garnered significant criticism. We have therefore removed the prohibition in clause 13 (2) and replaced it with an obligation to disclose climate conflicts.

| Original version | Amended version |
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| **13 (1)** No person may be appointed to the board of a reporting entity if that person<br>**(a)** controls any capital, shares, stock, voting power or voting rights or has any ownership or legal interest in an organization that does not meet the description of an entity in alignment with climate commitments as described in section 4, except to the extent that it is an asset described in paragraphs (b) to (m) of the definition *exempt asset* in section 20 of the *Conflict of Interest Act*;<br>**(b)** occupies any position in an organization that is not in alignment with climate commitments unless the sole purpose of that position is to assist the organization in meeting the description of an entity in alignment with | **13 (1)** Board members of a reporting entity must promptly disclose to the board if they<br>**(a)** control any capital, shares, stock, voting power or voting rights or have any ownership or legal interest in an organization that does not meet the description of an entity in alignment with climate commitments as described in section 4, except to the extent that it is an asset listed in paragraphs (b) to (m) of the definition exempt asset in section 20 of the *Conflict of Interest Act*;<br>**(b)** occupy any position in an organization that is not in alignment with climate commitments unless the sole purpose of that position is to assist the organization in becoming an entity in alignment with climate |

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| climate commitments as described in section 4;<br>**(c)** has, in the last five years, engaged in any activity described in paragraphs 5(1)(a) or (b) of the *Lobbying Act* on behalf of any organization that is not aligned with climate commitments as described in section 4; or<br>**(d)** provides any services to an organization that does not meet the description of an entity that is not aligned with climate commitments as described in section 4 unless those services are for the sole purpose of enabling that organization to be an entity aligned with climate commitments as described in section 4.<br>**Consequence**<br>**(2)** An appointment made in contravention of subsection (1) is void from the time it is made. | commitments as described in section 4;<br>**(c)** have, in the last five years, engaged in any activity described in paragraph 5(1)(a) or (b) of the *Lobbying Act* on behalf of any organization that is not in alignment with climate commitments as described in section 4; or<br>**(d)** provide any services to an organization that is not in alignment with climate commitments as described in section 4 unless those services are for the sole purpose of enabling that organization to become an entity in alignment with climate commitments as described in section 4.<br><br>**Information**<br>(2) The climate commitments alignment report must<br>**(a)** contain detailed information regarding board members' involvement in any activity described in subsection (1);<br>**(b)** contain related measures taken by the board to avoid conflict of interests; and<br>**(c)** state whether board members referred to in paragraph (a) recused themselves from a discussion, decision, debate or vote on fossil fuel investments. |

## Amendment 3: Duties of Directors (Clause 16)

CAFA **establishes a new duty for directors**. Under clause 16(1) of CAFA, directors of a reporting entity have a duty to exercise their powers in a way that enables the entity to be in alignment with climate commitments. Clause 16(2) establishes a precedence for this duty.

However, this clause has been criticized for potentially contravening a director's obligations under the *Bank Act* or under the provincial or federal *Business Corporations Act*, as these acts require the director to act in the best interest of the company. Many of the criticisms of CAFA were directed at this clause. We have changed the wording to instead deem directors, officers and administrators who comply with this duty to comply with their other duties under other laws. This wording is more aligned with other laws establishing duties for directors, officers and administrators. Note that, due to a merging of clauses 13 and 14, clause 16 is now clause 15.

| Original version | Amended version |
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| **16(1)** Every director, officer or administrator of a reporting entity must carry out their duties and functions and exercise their powers in a way that enables the entity to be in alignment with climate commitments as described in section 4. | **15(1)** Every director, officer or administrator of a reporting entity must carry out their duties and functions and exercise their powers in a way that enables the entity to be in alignment with climate commitments as described in section 4. |
| **16(2)** The persons for whom a duty is established under subsection (1) must give precedence to that duty over all other duties and obligations of office, and, for that purpose, ensuring the entity is in alignment with climate commitments is deemed to be a superseding matter of public interest. However, this precedence does not supersede any requirement under the *Income Tax Act* or regulations made under that Act, nor does this precedence affect the eligibility of pension schemes under the *Income Tax Act* or its regulations | **15(2)** Directors, officers or administrators of a reporting entity who comply with the requirement referred to in subsection (1) are deemed to carry out their duties and functions and exercise their powers, in accordance with the duties, function and powers assigned to them under any other enactment |

# Other Notable Changes

## Adding a Definition for "Entity" (clause 2)

Currently, CAFA uses the term "entity" over 50 times. While the term "reporting entity" is defined, the term "entity" is not. We seek to clarify the difference between these two terms by adding the following definition for "entity":

***entity*** means a corporation or a partnership, sole proprietorship, trust or other unincorporated organization capable of conducting business; (entité)

This definition, inspired by the definition of "entity" in the *Competition Act*,[1] makes clear that the term "entity" is broader than the term "reporting entity," which is described in CAFA as

**a)** a federal financial institution;
**b)** a corporation within the meaning of the *Canada Business Corporations Act*;
**c)** an entity that is responsible for a federal work, undertaking or business referred to in any of paragraphs (a) to (e) and (j) of the definition federal work, undertaking or business in section 2 of the Canada Labour Code; and
**d)** an entity listed in schedule III of the *Financial Administration Act*. (entité déclarante).

[1] As per the *Competition Act* s 2, "***entity*** means a corporation or a partnership, sole proprietorship, trust or other unincorporated organization capable of conducting business; (*entité*)"