Vancity Centre
183 Terminal Avenue, Vancouver, BC, V6A 4G2
T 604-877-7000 vancity.com

Vancity

Response to OSFI Draft Guideline B-15: *Climate Risk Management*

Thank you for the opportunity to respond to the draft Guideline B-15 *Climate Risk Management* shared for public consultation by the Office of the Superintendent of Financial Institutions (OSFI). As articulated just over a year ago in our response to the consultation document *Navigating Uncertainty in Climate Change: Promoting Preparedness and Resilience to Climate-Related Risks*, Vancity applauds OSFI for moving ahead with the critical work of integrating climate-related risk into the regulatory framework that guards the health and resilience of Canada's financial system, and we continue to offer our ongoing support to OSFI's efforts.

Background

The climate emergency is the next major crisis on Canada's doorstep, and a problem of unprecedented risk for the country's financial system. In the months since OSFI released *Navigating Uncertainty in Climate Change: Promoting Preparedness and Resilience to Climate-Related Risks*, the financial well-being of Vancity's more than 560,000 members has been impacted, both indirectly and directly, by severe weather events connected to climate change. In the summer of 2021, hundreds of people lost their lives in a record-breaking heat dome that disproportionately affected seniors and people living with disabilities. Businesses were forced to close their doors, and families had to flee their homes – often at great expense – to protect their physical safety. Shortly after, an atmospheric river cut off access for BC's lower mainland to the rest of Canada, leading to supply chain disruptions for millions and severely damaging the homes and livelihoods of thousands.

The need for regulators such as OSFI to integrate climate risks into capital and regulatory frameworks is urgent. Without a view of climate risks, current frameworks are modeled around two mutually exclusive predictions of the future: Little-to-no rise in global temperatures, and a steady rise in demand for fossil fuels. Accounting for these risks is a critical step in transitioning our economy, and the longer we delay the more serious the impacts on our economy and on the financial and physical well-being of Canadians.

Vancity would like to offer the following summary of our recommendations to OSFI as the regulator moves ahead with this work:

1. **Keep going, keep the urgency:** The climate crisis demands we move quickly both to account for existing climate risks within our financial system, and to avoid exacerbating their magnitude going forward.
2. **Progress needs a destination:** We cannot measure progress unless we have a clear view of our ultimate destination, which must be net-zero before 2050. This requires financial institutions to include scope 3 emissions in disclosures and risk management and to consider double materiality.
3. **Work with provincial regulators:** There will need to be support from OSFI for provincial regulators to align regulatory frameworks. Many provincially regulated financial institutions are regionally concentrated, and without coordination there is risk of regulatory arbitrage.
4. **Align to international standards:** Canada's transition will require international investment and aligning to well-established and widely accepted disclosure frameworks and standards, including the International Sustainability Standards Board (ISSB), will be critical.
5. **Recognize that financial resilience is climate resilience:** As we integrate climate risks we need to ensure that our approach doesn't exacerbate inequality by passing costs onto the people and families most vulnerable to the effects of climate change.

Chapter 1: Governance and Risk Management Expectations

Principle 1: The FRFI should incorporate the implications of climate change and the transition to a low-greenhouse gas (GHG) economy to the FRFI in its business model and strategy.

Vancity is supportive of this principle and would suggest bringing greater clarity to it by replacing references to "a low-greenhouse gas economy" with "a net-zero economy". Progress on any transition requires a clearly stated destination, and for the Canadian economy that is net-zero before 2050. This is a frame that should be integrated throughout the guideline, including into the requirement for a Climate Transition Plan.

We also encourage OSFI to outline minimum standards of a credible Climate Transition Plan, which should include emissions disclosures, transition strategies that account for Indigenous Rights, and targets in line with 1.5 degrees Celsius of warming. Leaving financial institutions to set their own temperature goals will undermine market standardization and comparability for investors and allow FIs to develop plans that are out of line with Canada's climate targets and that would increase the intensity and frequency of climate-related risks.

Principle 2: The FRFI should have the appropriate governance, policies, and practices in place to manage climate-related risks.

As one of the first financial institutions in North America to include climate-related considerations in its risk management approach, Vancity strongly supports this principle. Climate is one of the ten risk dimensions our organization monitors as part of our Enterprise Risk Management framework, and we revise our metrics and thresholds annually.

Principle 3: The FRFI should have processes in place to adequately price climate risk-sensitive assets and liability and manage these exposures in accordance with the FRFI's Risk Appetite Framework.

We applaud OSFI for these principles, and the requirement for FRFIs to integrate climate-related risks into Risk Appetite Frameworks and Internal Control Frameworks. Ongoing monitoring of the application of these new requirements and their "on-the-ground" implications – i.e., how they change lending practices in regions and populations exposed to a higher degree of physical risk – will be critical. Similarly, this work should be harmonized as closely as possible between federally regulated and provincially regulated financial institutions. The latter tend to have a more geographically concentrated portfolio, and harmonization will help avoid regulatory arbitrage that could concentrate climate risk within provincially regulated FIs.

Principle 4: The FRFI should mitigate the impact of climate-related disasters on its critical operations.

Vancity has begun the work of mapping and assessing our exposure to climate-related operational risk, including a scan of our branch network, and exposure to risks related to overland flooding, sea level rise, and wildfires.

This work was prompted by operational challenges we faced during the heat dome and severe wildfire season of 2021, and record-breaking flooding that followed months later. During that time, we also actively reached out to members who were impacted by major weather events to ensure they were safe and had sufficient access to capital to care for themselves and their families.

Financial institutions have a crucial role to play in supporting the communities they serve in the wake of climate-related disasters. Financial resilience and climate resilience are very closely linked, and we applaud OSFI for including consideration of operational risks for FRFIs in this guideline.

Financial institutions would benefit from more guidance and support from OSFI on the types of climate-related disasters we should track, over what timelines, and which sources we should use to map and assess our exposure.

Principle 5: The FRFI should use climate scenario analysis to assess the impact of climate-related risk drivers on its risk profile, business strategy and business model.

The costs of adapting to a changing climate will require significant investment, and OSFI should work to ensure that FRFIs are supporting climate resilience through the asset sides of our balance sheets. For this reason, we suggest OSFI explicitly state that materiality should be considered when selecting climate scenarios or testing for climate risk.

In addition, OSFI should include a definition of short-, medium-, and long-term time horizons in the guideline to harmonize analysis across FRFIs. Further clarity on how OSFI expects different time horizons to be integrated into current stress-testing processes would also be welcome and support this work.

We also recommend that a future area of focus be ensuring consistency in the scenarios used.

Principle 6: The FRFI should maintain sufficient capital and liquidity buffers for its climate-related risks.

Both of these principles are core to getting FRFIs to account and plan for the climate-related risks in their portfolio. As such, this is another place where alignment to net-zero can be applied and has direct salience to the climate scenario analysis models a FRFI contemplates. For example, if a financial institution’s Climate Transition Plan is aligned to 1.5 degrees Celsius of warming, then modeling to that temperature scenario (and higher) provides analytical consistency and alignment. If an FI’s Climate Transition Plan is not aligned to 1.5 degrees Celsius of warming, then OSFI should consider introducing more stringent requirements for scenario analysis and capital and liquidity buffers for that FI.

With climate change presenting immense, complex, and uncertain risks (for both individual FIs and the financial system broadly), and recognizing the importance of a double materiality lens for mitigating climate risk, the prudent course of action is to take a precautionary approach to capital requirements. As a result, Vancity encourages OSFI to set capital requirements such that they accurately reflect the risk of activities that would exceed the crucial 1.5 degrees Celsius threshold. Work is underway to develop the data and a made-in-Canada taxonomy that would support this type of differentiation, but as a first step, additional capital requirements should be set for new fossil fuel infrastructure. We also recommend OSFI provide input to the Sustainable Finance Action Council and Finance Canada on the development of that taxonomy.

Appropriately managing capital requirements is important under any physical- or transition-risk scenario, but particularly if Canada follows a ‘disorderly’ transition. There are a significant number of assets in the Canadian economy that are at risk of becoming ‘stranded’ in a net-zero economy and the (terminal) value of these assets will have to be assumed to decline dramatically through the transition, with a disorderly transition having a particularly unpredictable and erratic impact on FIs connected to those assets.

Given the importance of maintaining sufficient capital and liquidity buffers for climate-related risks, Vancity supports OSFI’s intention to develop this section into a separate chapter in the Guideline.

Chapter 2: Climate-Related Financial Disclosures

Principle 1: The FRFI should disclose relevant information.

Vancity is supportive of OSFI adopting a double materiality approach that recognizes and accounts for the role of financial institutions in either exacerbating or mitigating climate-related risks.

Principle 2: The FRFI should disclose specific and complete information.

Data that reflect the risk exposure and emissions from small and medium enterprises (SMEs) will be particularly difficult to collect and disclose. Rather than excluding this critical sector of the economy from disclosures, Vancity suggests that OSFI should establish data sources and best practices for extrapolating information from aggregate data sources.

Principle 3: The FRFI should disclose clear, balanced, and understandable information.

As FRFIs grow their level of expertise and precision in climate disclosures we encourage OSFI to incorporate a safe harbour clause. The terms and scope of this clause should be aligned to the sophistication and granularity of available data sets and should diminish in scope and sunset over time.

Principle 4: The FRFI should disclose reliable, verifiable, and objective information.

Vancity is supportive of these principles and asks that OSFI lead in supporting the development and disclosure of clear, accurate, and usable data sources and analysis frameworks in order to ensure consistency and comparability across FIs. We were particularly encouraged to see consideration of Scope 3 emissions, based on the framework established by the Partnership for Carbon Accounting Financials (PCAF).

Vancity includes a Task Force for Climate Related Disclosures (TCFD)-aligned disclosure in our annual report. We declared our support for TCFD in 2020, and in 2019 joined the Partnership for Carbon Accounting Financials (PCAF), committing to measure and disclose the climate impact of our loans and investments. Vancity is a founding signatory of, and the first Canadian FI to join, the Global Net-Zero Banking Alliance (NZBA).

Our experience with disclosures informs our position that OSFI’s proposed requirements to begin requiring scope 3 emissions disclosures in 2027 are particularly important. OSFI should provide guidance around standardizing data to allow for consistency and comparability across climate risk and emissions disclosures.

OSFI may need to consider a dedicated track for contemplating data and disclosure requirements related to small and medium enterprises (SMEs). While these entities may lack the resources to share disclosures, leaving them out of these frameworks could hinder their partnership and business opportunities. In short, data sources must be made readily available to support SMEs in having a view of their climate-related risks and emissions data. Vancity would welcome an opportunity to discuss potential approaches with OSFI.

We also support aligning disclosure requirements to international standards, including the ISSB's. Though we encourage OSFI to move with the urgency the climate crisis requires, we would support minor delays – still within the proposed 2023 timeframe – in order to facilitate alignment with the ISSB's standards, which are set to be finalized in 2023.

Principle 5: The FRFI should disclose information appropriate for its size, nature, and complexity.

Every FI will have its own unique set of exposures, with the impact of climate-related risks influenced by factors like industry, geography, and demographics in the FI's trade region(s). Risks and opportunities will also compound and interact in different ways for each FI. As smaller FIs face climate-related risks that require management (e.g., geographic concentration) but often have more limited capacity, we recommend that OSFI develop supports that are specific to the needs of smaller FIs to ensure they are able to engage in this work.

Principle 6: The FRFI should disclose information consistently over time.

Climate-related disclosures should be integrated as much as possible into other reporting mechanisms, such as public accountability statements. Vancity suggests harmonizing timelines and formats to support integrated reporting.

Conclusion

Thank you again for the opportunity to respond and to share our perspective on the important topic of climate-related risks. Please reach out if there are any questions regarding Vancity's feedback. We look forward to OSFI's leadership and next steps on this important issue.

About Vancity

Vancity is a values-based financial co-operative serving the needs of its more than 560,000 member-owners and their communities, with offices and 54 branches located in Metro Vancouver, the Fraser Valley, Victoria, Squamish, and Alert Bay, within the unceded territories of the Coast Salish and Kwakwaka'wakw people.

With $33 billion in assets plus assets under administration, Vancity is Canada's largest community credit union. Vancity uses its assets to help improve the financial well-being of its members while at the same time helping to develop healthy communities that are socially, economically, and environmentally sustainable.

We support the Task Force for Climate-Related Financial Disclosures, the Partnership for Carbon Accounting Financials, are a member of the Global Alliance for Banking on Values, and represent North America on the Board overseeing the implementation of the UN's Principles for Responsible Banking.

Vancity is regulated both by the BC Financial Services Authority (BCFSA) and by OSFI, through the credit union's Toronto-based subsidiary, Vancity Community Investment Bank (VCIB).

About Vancity Community Investment Bank (VCIB)

VCIB is an Ontario-based schedule 1 federally chartered bank and a subsidiary of Vancity. As Canada's first values-driven bank, VCIB provides banking, investing, and financing solutions to help purpose-driven businesses and organizations thrive, grow, and foster change. Additionally, VCIB offers specialized financing solutions for social purpose real estate and clean energy projects. VCIB is a certified B Corporation and a member of the Global Alliance for Banking on Values.