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The Co-operators Group Limited

Addenda Capital Inc

January 31, 2019

Sent via electronic mail

Expert Panel on Sustainable Finance

c/o

ec.sfep-pefd.ec@canada.ca

Re: Comments in response to *Interim Report of the Expert Panel on Sustainable Finance*

Dear Sirs/Mesdames:

We have reviewed the *Interim Report of the Expert Panel on Sustainable Finance* ("Interim Report") and we thank you for the opportunity to provide our comments. The Interim Report and the work of the Expert Panel on Sustainable Finance are important contributions to the work Canada's financial sector must undertake to promote Canada's prosperity though a transition to a climate-resilient, low-carbon society.

The Co-operators is a group of Canadian companies focusing on insurance and financial services. As a co-operative, our 45 members include co-operatives and credit union centrals representing a combined membership of millions of Canadians. In Canada we have over $ 41.6 billion in assets under management and we employ over 5300 staff and have independent distribution contracts with approximately 500 advisors, who in turn operate their own agencies. We insure approximately 1.4 million private passenger vehicles, 875,000 homes, 40,000 farms and 306,000 businesses across the provinces.

Addenda Capital Inc. is an investment management firm responsible for investing more than $27 billion in assets for pension funds, insurance companies, foundations, endowment funds and third party mutual funds of major financial institutions. Addenda is majority-owned by The Co-operators and is independently run. Our comments below were jointly prepared and offer our perspectives as an insurer, an asset owner and an investment manger.

General comments

There is a need for courageous leadership from government as well as business leaders globally and specifically in Canada to address the long-term impacts of climate change and other sustainability challenges and to try to mitigate them. We, The Co-operators and Addenda

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Capital, are supportive of the Government of Canada taking steps to promote sustainable finance activity by Canada's financial market participants. The Government of Canada must prioritize the engagement of Canada's financial sector to help achieve the transition to a climate-resilient, low-carbon society.

Other global jurisdictions, including the European Union, China, Italy, Australia, Argentina and the United Kingdom are moving faster than Canada to position their financial services sector to facilitate the transition – and to benefit from it. Many Canadian financial institutions are engaging in this global progress through their membership in the United Nations Environment Program – Financial Initiative (UNEP-FI) and are working collaboratively to support the Expert Panel and its mandate to promote sustainable finance in Canada.

Insurers are the canary in the coal mine experiencing first hand increasing losses for our businesses and our clients. The increased frequency and severity of climate related events including flooding, wild fires, droughts etc. are economic, environmental and social issues. They are not mutually exclusive.

Finally, all Canadians need to hear more about how the transition to a climate-resilient, low-carbon society can help us increase our prosperity and maintain our high quality of life. There is a need to raise citizen awareness on topics such as carbon pricing, climate change science, resiliency and the benefits of energy efficiency retrofits and strong building codes.

Responses to specific questions

3.3 – Effective Climate-Related Financial Disclosures

3.3.1 – What would accelerate adoption of the TCFD disclosure framework? Are there any critical enables or barriers to adoption that have not been disclosed?

A pathway to mandatory climate-related financial disclosure that references the TCFD recommendations would accelerate adoption of the TCFD disclosure framework.

Although the TCFD recommendations are voluntary, greater support from the Bank of Canada and the financial regulators would likely accelerate their adoption. We have noticed a momentum to implement the TCFD recommendations which we have not seen with other climate-related disclosure frameworks.

In the United States, six states (California, Connecticut, Minnesota, New Mexico, New York and Washington) have mandatory annual climate change reporting for insurers that write more than $100 million in premiums annually. Ceres, a non-profit collaboration between investors and businesses, reviews the submissions and provides a report on the findings. The purpose of this approach is to publicly share the exposure insurers face from climate change and what actions they are taking to mitigate their exposure.

3.3.2 – Should the Government of Canada become an official supporter of the TCFD?

Yes, more high-level support shown by the Government of Canada should lead to more support for climate-related disclosure from other levels of government (provincial and municipal) as well as businesses.

3.3.3 – Is there a need for climate-related disclosures to be included in mainstream financial statements, or is that not necessary so long as other conditions are met (i.e. robust oversight and governance of the reporting process and quality)?

Some aspects of climate-related disclosures should be included in mainstream financial statements. Where climate-related risks and opportunities are deemed material, they should clearly be included in mainstream financial statements. Following the TCFD framework, issuers should also be required to disclose the following in their annual regulatory filings:

a) The board's oversight of climate-related risks and opportunities;
b) Management's role in assessing and managing climate-related risks and opportunities;
c) The organization's processes for identifying and assessing climate-related risks;
d) How processes for identifying, assessing, and managing climate-related risks are integrated into the organization's overall risk management; and
e) The climate-related risks and opportunities the organization has identified over the short, medium, and long term.

We have observed an increase in climate reporting following the introduction of the TCFD recommendations. Some disclosure occurs in separate reports, some are part of mainstream financial statements (such as an MD&A) and some is in integrated reports and sustainability reports. If climate-related disclosures are excluded from mainstream financial statements it signals they are less important than other disclosures and sometimes makes it difficult to ascertain if they have been subject to robust oversight.

3.3.4 – Should larger firms be looked upon to demonstrate leadership to small and medium sized enterprises?

Yes, larger organizations should provide leadership to support the small and medium sized enterprises who may not have the resources to understand the recommendations and apply them to their businesses. Many of Canada's financial institutions (banks, insurers and investors) are members of the United Nations Environment Program – Financial Initiative (UNEP-FI) and have joined pilot projects exploring TCFD related disclosures. The findings from the three streams will be made public and will provide smaller and medium sized enterprises with concrete examples on how best to implement the TCFD.

Small and medium sized enterprises should be encouraged to explore climate-related disclosures pertinent to their organizations. Perhaps the government could work with an organization like CPA Canada to explore how the TCFD recommendations could apply to resource constrained organizations?

3.3.5 – Is there a need for further guidance on the relationship between climate-related risks and materiality? How can the understanding of what is material be improved?

There is a need for further guidance on the relationship between climate-related risks and materiality. Issuers are required by law to disclose information that is material but yet they have been slow to provide climate-related information despite signals from investors that climate-related information can influence their investment decisions.

In addition, climate-related risks transcend the traditional definition of materiality. In the words of the Bank of Canada, "climate change itself and actions to address it will have material and pervasive effects on Canada's economy and financial system."[1] From a physical perspective, the Intergovernmental Panel on Climate Change (IPCC) has documented many observed changes in the climate system, for which anthropogenic drivers are the dominant cause.[2] The IPCC has also highlighted that many aspects of climate change and associated impacts will continue to occur for centuries and that without sufficient mitigation efforts, there is a, "high to very high risk of severe, widespread and irreversible impacts globally."

In Canada, the federal government's Intended Nationally Determined Contribution is to, "achieve an economy-wide target to reduce its greenhouse gas emissions by 30% below 2005 levels by 2030."[3] Canada's Mid-Century Long-Term Low-Greenhouse Gas Development Strategy discusses a pathway consistent with reducing greenhouse gas emissions by 80% below 2005 levels by 2050.[4] Such a significant reduction will require, "a fundamental restructuring of multiple sectors of the economy." For instance, "the electrification of end use applications that are currently using fossil fuels is fundamental."

Investor and issuer understanding of the scope of risks and opportunities related to climate change is evolving. While insurers widely recognize the impacts of climate change, the impacts are not well understood by all mainstream investors. Given the overwhelming evidence that climate change and related actions will materially alter Canada's economy, it is clear that climate change is sufficiently important to warrant further guidance. Guidance will raise awareness of the impacts of climate change on business models and the economy in general and help influence investment decisions. It is not a question of "if" climate change materiality will become mainstream but rather of "when". Guidance can help accelerate the pace of change.

Regarding materiality at the issuer level, as currently understood, the CSA wrote in *Staff Notice 51-333: Environmental Reporting Guidance,* "Information relating to environmental matters is likely material if a reasonable investor's decision whether or not to buy, sell or hold securities of

[1] Bank of Canada. (2017-03-02). *Thermometer Rising – Climate Change and Canada's Economic Future*. Retrieved from http://www.bankofcanada.ca/2017/03/thermometer-rising-climate-change-canada-economic-future/

[2] IPCC. (2014). *Climate Change 2014: Synthesis Report. Contribution of Working Groups I, II and III to the Fifth Assessment Report of the Intergovernmental Panel on Climate Change* [Core Writing Team, R.K. Pachauri and L.A. Meyer (eds.)].

[3] Canada. (2015-05-15). *Intended Nationally Determined Contribution – Canada*. Retrieved from http://www4.unfccc.int/Submissions/INDC/Published%20Documents/Canada/1/INDC%20-%20Canada%20-%20English.pdf

[4] Canada. (2016-11-17). Canada's Mid-Century Long-Term Low-Greenhouse Gas Development Strategy. Retrieved from http://unfccc.int/files/focus/long-term_strategies/application/pdf/can_low-ghg_strategy_red.pdf

the issuer would likely be influenced or changed if the information was omitted or misstated." There is no bright-line test for materiality. The type of information that may be considered material varies by industry, by company, by time horizons, and by other factors. The CSA Staff Notice rightly concluded in its guiding principles for determining materiality that, "If there is any doubt about whether particular information is material, we encourage issuers to err on the side of materiality and disclose the information."

Regarding the inadequacy of climate-related reporting, a 2017 report from the Chartered Professional Accountants of Canada (CPA Canada) on the climate-related disclosures provided by 75 TSX-listed companies (representing 78% of the market capitalization of the S&P/TSX Composite Index) in their securities filings highlights in inadequacy of issuer reporting.[5] The key findings of the report include:

- "Less than one third of companies made specific disclosure of board or senior management oversight of climate-related issues."
- "Few companies provid[e] a meaningful analysis demonstrating the actual and expected impacts of climate-related developments on financial results and the company's business, operations and strategy"
- "Most climate-related disclosures did not provide sufficient context for users to understand the relative significance of existing and potential business, risk-management and financial implications relative to past performance, company targets or industry peers"
- "Only one quarter of companies disclosed proactive strategies to deal with the transition to a low-carbon economy."
- "No companies disclosed the implications of limiting global warming to two degrees Celsius in alignment with global commitments under the Paris Agreement."

Finally, there are many examples of investors in Canadian markets indicating that climate-related information can influence their investment decisions. For example:

> "AIMCo is committed to addressing climate risk across our portfolios in alignment with our Responsible Investment Pillars by integrating consideration of an asset's climate risk and resiliency into our investment decision-making"
> – Alberta Investment Management Corporation[6]
>
> "As an investor, Norges Bank Investment Management analyses opportunities and risks to our investments. We encourage companies to be transparent about the topics raised in this document. We use such information to identify how climate change may affect companies' economic performance and prospects, and to assess whether management is taking relevant steps to develop a long-term business strategy for a transition to a low-emissions economy."

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[5] Chartered Professional Accountants of Canada. (2017-04-22). State of Play: Study of Climate-Related Disclosures by Canadian Public Companies. Retrieved from https://www.cpacanada.ca/-/media/site/business-and-accounting-resources/docs/g10218-rg-state-of-play-study-climate-related-disclosures-report-june-2017.pdf

[6] Alberta Investment Management Corporation. (2016-09-28). *Responsible Investment Report 2016*. Retrieved from http://www.aimco.alberta.ca/DesktopModules/AIMCoWhitepaper/Whitepapers/AIMCo-InteractivePDF.pdf

– Norges Bank Investment Management[7]

3.3.7 – What is the role of the board – and specifically the audit committee – in overseeing climate-related financial disclosures?

More and more boards are being called upon to provide high level oversight of climate-related risks and opportunities and related financial disclosures as evidenced by recent publications: Addressing Climate Change Belongs in Insurance Companies' Boardrooms – Maryam Golnaraghi; Climate Change Briefing: Questions for Directors to Ask, CPA Canada; View from the Top: How Boards can Engage on Sustainability Performance, Ceres. The main theme of these publications is that climate change is a long-term risk which is affecting and will continue to affect the value of companies and Boards need to play a greater role in the oversight of the topic.

The Co-operators Board of Directors has assigned two of its board committees oversight and accountabilities related to climate change – Risk and Compensation Committee and the Sustainability and Citizenship Committee. In 2018, a joint meeting was held with these two committees along with the CEO and President and the CFO. Their committee terms of reference were amended to reflect their new responsibilities. For instance, the Risk Committee has an important role to play in understanding how climate-related risks relate to other material risks the organization faces – how climate change risks interact with other risks, how climate change can amplify other risks and how much attention management pays to different risks and their relative importance.

Regarding the disclosure aspect specifically, the role of the board is in essence the same as for other financial disclosures. As referenced above, board member duties of loyalty and care likely impose a requirement that boards ensure that climate-related risks are adequately identified and addressed while corporate disclosure obligations likely mandate adequate disclosure and if a board fails in either of these tasks, individual directors could find themselves liable.

3.6 Relevant and Consistent Financial Regulations

3.6.1 – Are climate risks different than other material financial risks? How could climate risk be best integrated into the financial regulatory oversight process?

Yes, climate risks are different than other material financial risks. For example, the impact of climate risks are not always immediately financial, which could lead to an inappropriate de-prioritization of addressing climate risks. There are non-financial risks associated with climate change, and even the financial risks may not always be directly attributable to climate as the root

[7] Norges Bank Investment Management. (2015-03-13). *Climate Change Strategy: Expectations Towards Companies.* Retrieved from https://www.nbim.no/contentassets/e3f8e013de754cad905b686bdb50f76a/climate-change-expectations-updated.pdf

cause. The long-term nature of many climate risks can also cause them to be de-emphasized. For most risks there is short to mid-term material impact in the 1-5 year horizon that we may not see from some climate risks. See also our response to question 3.3.5 above.

3.6.2 – Is there appropriate dialogue to be had between financial regulators and interested private sector organizations and relevant bodies?

Yes, for example, financial regulators should engage the Canadian Institute of Actuaries to further explore how actuaries as risk managers and risk quantification specialists, can further enhance our understanding of climate risks.

3.6.3 – What expectations, if any, should stock exchanges place on issuers regarding ESG disclosure?

The Sustainable Stock Exchanges Initiative has prepared *Model Guidance on Reporting ESG Information to Investors* that Canadian stock exchanges could incorporate into their listing requirements.

3.4 – Clear Interpretation of Fiduciary Duty

3.4.1 – Is there a need to more clearly define the scope of fiduciary duty with respect to the evaluation of climate-related or broader ESG factors in financial decision-making in Canada? What would be the best ways to effect change, and who are the key stakeholders in facilitating this change?

Yes, there is a need to more clearly define the scope of fiduciary duty for institutional investors with respect to climate change and other ESG considerations. There is ample evidence that ESG issues can affect financial performance and that climate change, in particular, is a systemic issue that will affect the economy in which beneficiaries and their investments exist. However, there is evidence that some fiduciaries in Canada may not be adequately exercising prudence with respect to climate change and other ESG considerations. For example, the Financial Services Commission of Ontario (FSCO) found that just 36% of the 6,300 Statement of Investment Policies and Procedures filed with FSCO by July 31, 2016 incorporated ESG factors.[8] Many fiduciaries are likely not inclined to incorporate ESG and climate-related considerations because they view these narrowly as non-financial and beyond their scope of duty and care.

Change is likely required at both the legislative level and the regulatory level.

3.4.2 – What is the best way to incorporate ESG into rules or regulations that govern Canadian financial institutions?

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[8] Financial Services Commission of Ontario. (2017-07-27). 2017 Report - Ontario Pension Plan Filings of Statement of Investment Policies and Procedures Information Summaries. Retrieved from http://www.fsco.gov.on.ca/en/pensions/investment/Documents/2017-sipp-report.pdf

There are several requirements that could be applied in law or regulation to Canadian financial institutions:

1) Sustainability considerations, including environmental, social and governance issues, and specifically climate change, must be included in investment analysis and investment activities;
2) Investors must ask their clients and/or the beneficiaries about their sustainability/ESG preferences and take those preferences into account when making investment decisions; and
3) Investors must inform their clients and/or the beneficiaries how they are fulfilling the sustainability/ESG aspects of their duties and taking their preferences into account when making investment decisions.

Another approach may be to introduce a Canadian Stewardship Code or Code for Responsible Investing that would apply to institutional investors (for example, pension funds and insurance companies) and their service providers (for example, investment managers and investment consultants). Such a code could be developed by the Canadian Association of Pension Supervisory Authorities, the Office of the Superintendent of Financial Institutions and the Canadian Securities Administrators and build off the work already done by the Canadian Coalition for Good Governance.[9]

3.4.3 – What are the responsibilities of investment agents and advisers for identifying and acting in accordance with the preferences of clients regarding sustainability issues? What is the most effective manner for these preferences to be identified and communicated?

There is considerable evidence that individual investors would prefer long-term sustainability issues to be considered by their investment agents[10] and that they would like their financial services provider to inform them about responsible investments that are aligned with their values.[11]

Investment agents and advisors should systematically be asking clients and prospective clients about their/their beneficiaries preferences. For instance, for individual investors, standard Know Your Client questionnaires should include questions about views on sustainability issues. For institutional investment consultants, onboarding of new clients should include a discussion of views on sustainability issues. For institutional investment managers, again, onboarding of new clients should include a discussion of views on sustainability issues.

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[9] Canadian Coalition for Good Governance. (2017-05). Stewardship Principles. Retrieved from http://admin.yourwebdepartment.com/site/ccgg/assets/pdf/stewardship_principles_public.pdf

[10] Morgan Stanley. (2017-08-09). Sustainable Signals: New Data from the Individual Investor. Retrieved from https://www.morganstanley.com/pub/content/dam/msdotcom/ideas/sustainable-signals/pdf/Sustainable_Signals_Whitepaper.pdf

[11] Responsible Investment Association. (2018-12-06). 2018 RIA Investor Opinion Survey. Retrieved from https://www.riacanada.ca/content/uploads/2018/12/2018-RIA-Investor-Opinion-Survey-Final.pdf

3.4.4 – What is the most effective method for delivering board education on climate risk and ESG/sustainability issues? Does education need to include guidance on effective governance and committee modeling for ESG oversight?

There is a large and growing body of recommendations on how best to inform governance bodies about climate risk and ESG/sustainability issues.

For instance:

- CPA Canada: Climate change briefing: Questions directors should ask. Retrieved from https://www.cpacanada.ca/en/business-and-accounting-resources/strategy-risk-and-governance/corporate-governance/publications/climate-change-questions-directors-should-ask
- Ceres: Lead from the Top: Building Sustainability Competence on Corporate Boards. Retrieved from https://www.ceres.org/resources/reports/lead-from-the-top
- Ceres: Getting Climate Smart: A Primer for Corporate Directors in a Changing Environment. Retrieved from https://www.ceres.org/climatesmartboards
- Canadian Coalition for Good Governance: The Directors' E&S Guidebook. Retrieved from https://www.ccgg.ca/site/ccgg/assets/pdf/the_directors__e_s_guidebook.pdf

Recommendations worth highlighting include:

- Employ independent climate experts to provide education
  - Education should be ongoing so as to build knowledge over time
  - Education should give directors the tools they need to apply judgement to company specific situations
  - Training should be customized to the competency level of board members and focused on the challenges specific to the company
- Senior management experts from departments such as Risk, Finance and Sustainability should provide regular briefings
- An advisory group of external stakeholders with climate expertise could be formed to obtain ongoing advice on climate issues
- Require board members to review annual sustainability disclosures
- Include climate education in board orientation
- Review climate competencies at least annually
- Ensure the Board's climate and sustainability capabilities are aligned with the company's most material drivers.

4.1 – Energy Efficiency and Resiliency Retrofits

The Co-operators impact investing strategy includes an allocation for alternative investments which includes private equity or infrastructure investments. Renewable energy investments and energy efficiency are two areas within impact investing where large institutional investors such as insurers, can help in addressing the climate change challenge. While there are significant opportunities for impact investments in alternative investments, the current regulatory regime provides a key barrier in enabling insurance companies from playing a more significant role.

According to Section 493 of the Insurance Companies Act (the "ICA"), federally regulated insurers are not permitted from acquiring or holding a substantial investment in any entity (while there are certain exceptions for permitted entities which may require approval of the Superintendent of OSFI). Section 10 of the Act defines 'substantial investment' as an ownership interest of greater than 25% in an entity or 10% of the voting rights. Given insurers' leadership in understanding the importance of addressing climate change, the significant pool of capital available to them and the current inadequate action on this critical issue, it is imperative the current regulation be re-examined. In nascent sectors such as energy efficiency, institutional capital is limited and therefore impact investors such as The Co-operators can take a leadership role in acting as a catalyst for the reduction of greenhouse gas emissions and the improvement of conservation measures such as water usage.

We understand the government recognizes this issue and has introduced Bill C-86 to amend certain sections of the ICA including a proposal to change the thresholds. We look forward to continued progress during the review process and encourage a positive step forward in changing the regulations.

4.1.4 – How much reliance should be placed on national or provincial building codes to mandate specific levels of energy performance to spur efficiency improvements?

Ideally, building codes would already be spurring significant efficiency improvements. However, building codes (national and provincial) are not keeping up with the changes needed to transition to a climate-resilient, low-carbon society. For example, research from the Institute for Catastrophe Loss Reduction (ICLR) at Western University has proven that there are many simple changes including adding back water valves, placing more nails in roofing etc. that will better protect our homes yet most of these recommendations have not yet been incorporated into building codes.

4.1.6 – What conditions need to be present to support the average residential property owner in pursuing energy efficiency or resilience-related retrofits? How can homeowners become more aware of the simple, low-cost measures available?

Regarding resilience-related retrofits, consumers for the most part are unaware of their risk exposure and therefore do not act to protect their assets. In a 2017 survey, the Partners for Action Network at the University of Waterloo asked 2300 participants across Canada who were identified as living in high risk zones if they felt at risk from flooding.[12] Only 5.6% of the respondents responded yes – leaving 94% unaware of their exposure. How can we expect Canadians to adapt to extreme weather events if they don't believe they are at risk? Public Safety Canada established an Advisory Council on Flooding and two working groups – one to

[12] Partners for Action Network at the University of Waterloo. (2017-05-17). Canadian Voices on Changing Flood Risk: Findings from a National Survey. Retrieved from https://uwaterloo.ca/climate-centre/news/canadian-voices-changing-flood-risk-findings-national-survey

investigate the flood funding programs and one to address consumer awareness. There is much work that needs to be done to engage consumers on these topics.

We believe that insurers, in addition to providing insurance products to protect Canadians, also need to provide advisory services to increase consumer awareness of their risks and how best to protect their assets. There is a growing protection gap resulting in more Canadians being financially vulnerable. We need to find solutions to these challenges beyond increasing premiums.

The Canadian insurance industry has been experiencing more severe and more frequent weather events in the past ten years. The cost to both homeowners, taxpayers and governments (through disaster recovery programs) has increased to billions annually and this is not sustainable.

We also need courageous leadership from all levels of government and businesses to address the climate change issue. There needs to be a more long-term view of these issues – our short-term approach is not working. Building codes must be updated in a timelier manner, building zones need to be reviewed and we need to stop issuing building permits in vulnerable regions and we need to develop strategic retreat plans so as not to rebuild in the same exposed areas following a climate event.

4.6 – Sustainable Asset Management

4.6.1 – What would create the necessary imperative for asset managers to objectively evaluate material ESG or transition-related issues in strategic planning, risk management, and investment research?

One approach to creating the necessary imperative would be to require disclosures by asset managers relating to sustainable investing, like the European Commission's new regulations on disclosures relating to sustainable investments and sustainability risks.[13]

4.6.2 – Are the near-term measures listed in the section above relevant in this regard? Are any of particular importance? Is anything missing?

As noted earlier, the re-evaluation of fiduciary duties with regard to climate risk and other sustainability issues is particularly important, as is training and capacity building for ESG practices throughout the industry.

4.6.3 – Does benchmark composition need to capture climate considerations? If so, precisely how? How do we prevent transitioning companies from exclusion?

Traditional market capitalization based benchmark indices remain a dominant driver of

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[13] European Commission. (2018). Regulation of the European Parliament and of the Council on disclosures relating to sustainable investments and sustainability risks and amending Directive (EU) 2016/234. Retrieved from https://ec.europa.eu/info/law/better-regulation/initiative/1185/publication/238004/attachment/090166e5baea374d_en

investment allocation. Most benchmarks today are not constructed with climate or sustainability criteria, nor is there transparency into their climate impact or carbon exposure. It is important that key market tools, such as benchmarks or credit ratings, be better aligned with sustainability – or at the very least better reflect their exposure to sustainability risks.

4.6.4 – Should clients, plan constituents and investors be afforded further information or input into their exposures to climate risk and opportunity led by the investment strategy or portfolio composition of their asset managers?

As noted above, Investment agents and advisors should systematically be asking clients and prospective clients about their/their beneficiaries preferences. For institutional investment managers, onboarding of new clients should include a discussion of views on sustainability issues. These views should in turn be considered when making investment decisions and related actions should be communicated to clients. For example, asset managers should provide disclosure according to the final recommendations of the TCFD so that clients are able to understand their exposures to climate risk and opportunities and make decisions using this information.

4.6.5 – Should defined contribution pension plans be encouraged to offer an ESG alternative as a default fund in their programs?

We do not view the consideration of ESG factors to be an optional approach. Incorporating ESG and climate-related factors needs to become a core component of mainstream investment processes. As such, ESG issues should be considered in the management of all pension plans and integrated into any default option. Pension plans could offer additional investment choices based on the interests and values of their beneficiaries such as impact investment or screened options.

4.6.6 – Would it be feasible or helpful to have a disclosed measure and labeling of carbon intensity and/or climate exposure for institutional investment portfolios, ETFs, and other funds? Should disclosure of such a measure be mandatory for funds that are marketed in Canada?

Labeling the carbon intensity or climate exposure of institutional investment portfolios, ETFs and other funds is possible but may not help drive investment dollars into investment strategies that would help with the transition to a climate-resilient, low-carbon society due to methodological and data availability challenges. For instance, a Canadian equities portfolio can be constructed with a relatively low carbon intensity by excluding some energy companies but that could lead to the exclusion of some energy companies trying to transition and still leave you with high exposure to rising carbon costs in their supply chain. Perhaps a more qualitative measure could be developed that used the recommendations of the TCFD to evaluate companies' oversight and management of climate risks along with a science-based evaluation of companies' emission reduction targets.

4.6.7 – Is there a leadership role for the Bank of Canada to play along with other central banks in addressing the systemic financial risks associated with climate change?

Yes, the Bank of Canada could play a leadership role and become a member of the Central Banks and Supervisors Network for Greening the Financial System (NGFS). As a member, the Bank of Canada could benefit from the work of other central banks and supervisors and work with other members to promote sustainable financial activity.

One specific action The Bank of Canada could take would be to explicitly integrate the consideration of ESG factors in its investment processes. This would signal to the market that these are important factors to consider, and improve the resiliency of the Bank of Canada's investments to climate change.

4.6.8 – Are there important barriers or enablers to sustainable finance that are being overlooked?

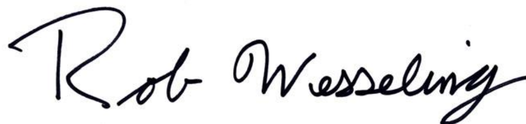
The education of the finance workforce is an ongoing, long-term barrier to the adoption of sustainable finance. We need to embed sustainable finance into financial education at the undergraduate and graduate levels as well as in private sector programs like those provided by the CFA Institute and the Canadian Securities Institute.

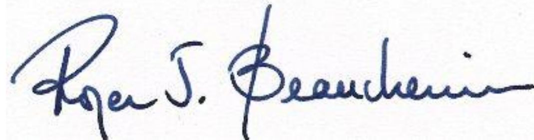
Conclusion

The Co-operators and Addenda Capital are strong advocates of the Expert Panel on Sustainable Finance and applaud your efforts as outlined in the Interim Report. We view this work as the start of developing a robust action plan for Canada that will support our transition to a climate-resilient, low-carbon society. The time to move forward is now and we must begin the heavy lifting that is required if we are to meet the increasing effects of climate change on our communities. As members of the Canadian financial sector we support your efforts and offer our services in support of your work on these critically important topics.

Thank you for taking the time to consider our comments, please do not hesitate to contact us if you have any questions regarding this submission.

Sincerely,





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