# Investing in climate solutions: What Canadian financial institutions need to understand

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Scaling Up Conference

Ecojustice

Ecojustice = Canada's largest envtla law charity. Use the law to defend nature and combat climate change.

Me: before, parliamentary affairs advisor to sen. Galvez. Legal architect of the bill. Now: sustainable finance project lead. Lawyer for 18 years, started career at Davies, big corp law firm on the BCE case which still defines corporate law… feels like I have been living and breathing this for decades.

*This presentation borrows heavily from the CAFA presentation prepared by the office of senator Rosa Galvez. All possible mistakes are my own.*

# Climate change worsens the affordability crisis

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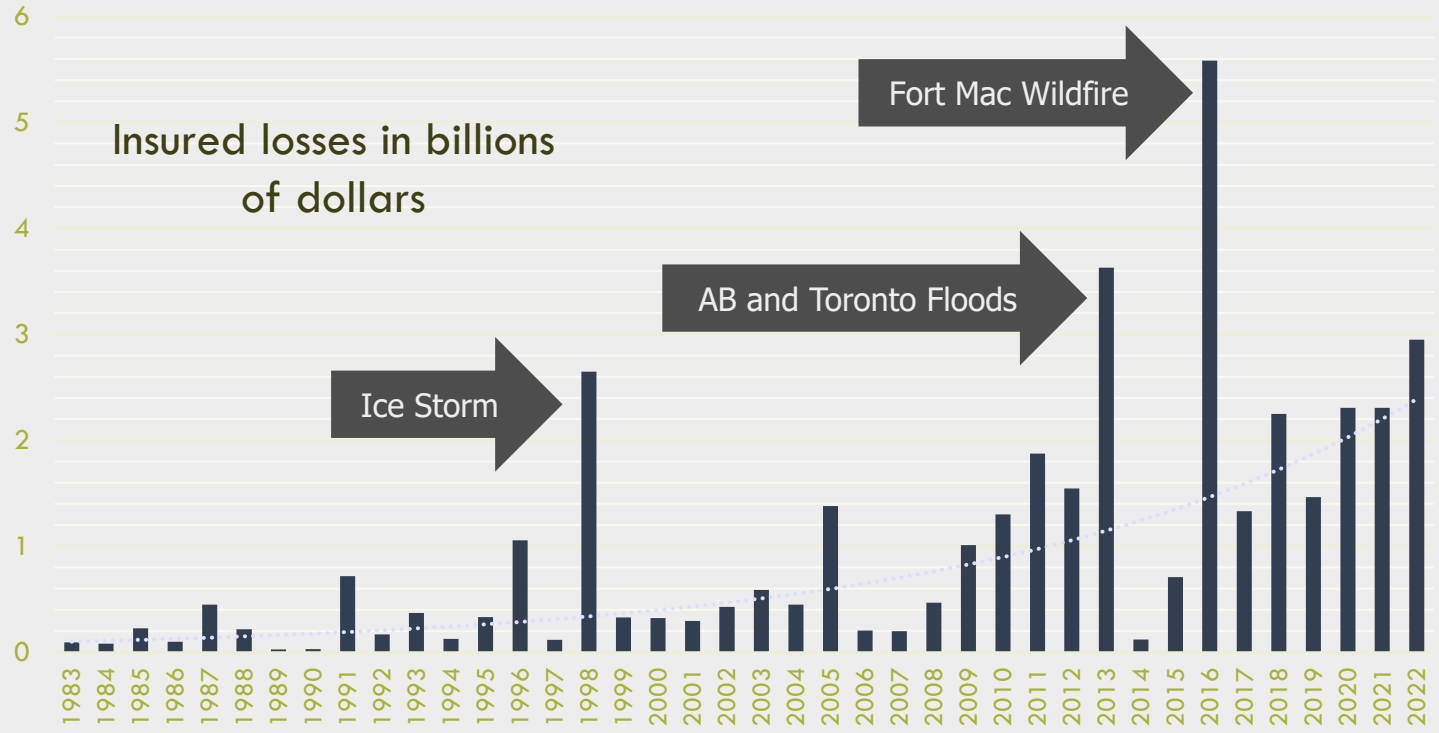
## Climate change is **impacting ALL Canadians today**

**Extreme Weather** | **Health Impacts** | **Economic Costs** | **Unequal Impacts**



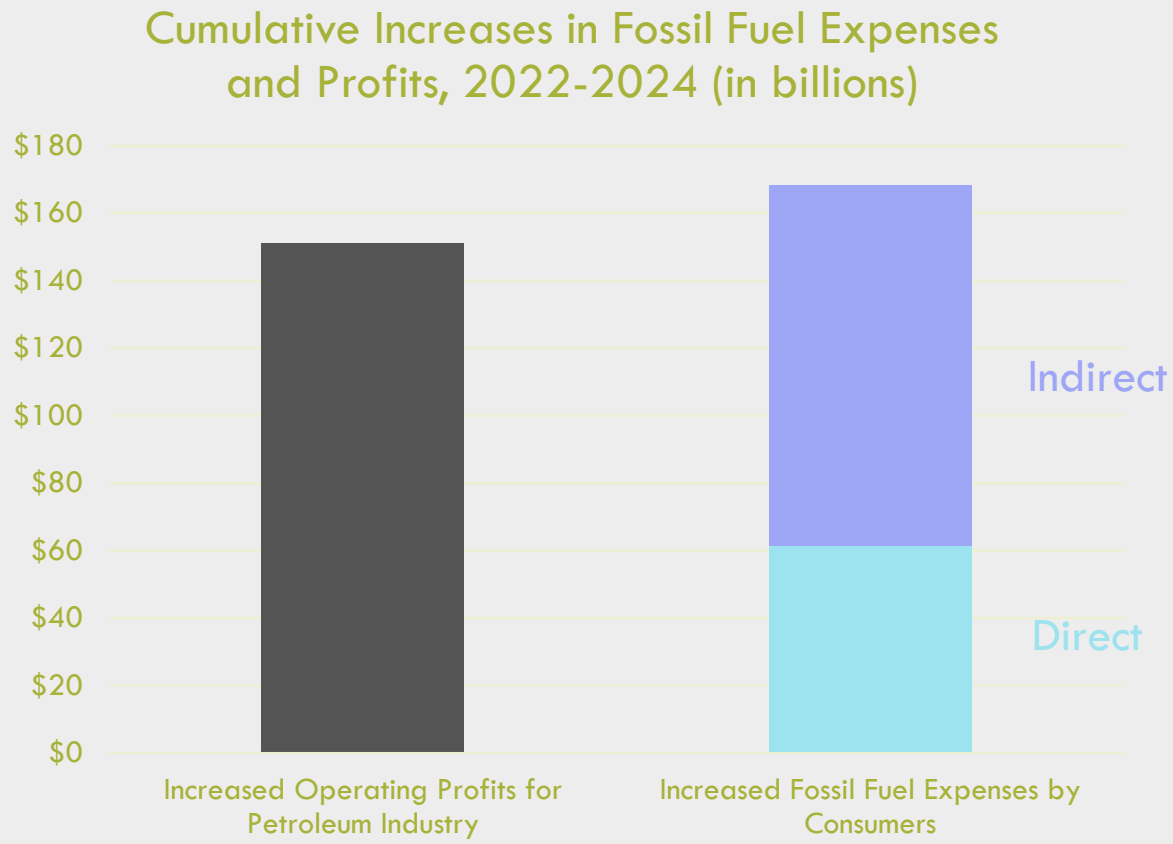

The **three worst years of insured catastrophic losses from extreme weather in Canada occurred in the last decade.** Canadian home insurance rates are on the rise, and **up to 10% of all Canadian homes are or will soon become uninsurable** as a result of climate change.

Wildfires cost the Canadian insurance industry over **$3 billion in 2022, and again in 2023; and over $7 billion for the summer of 2024 alone.**

***Source:*** *Insurance Bureau of Canada (CatIQ), Environmental Defense; Canadian Climate Institute*

# Financial speculation in global oil markets was **the primary driver** of Canada's inflation in 2022

- Energy prices accounted for **one third** of Canada's inflation from 2021-22.
- Inflation associated with fossil fuel price spikes estimated to cost each Canadian household **$12,000.**
- In 2022, **40% of all price increases** were caused by **profit increases in three industries,** including oil & gas and finance & insurance
- And **climate change contributes to inflation.** Could boost average food inflation by 33% to 117% by 2035 in Canada.




***Source**: Institute for Sustainable Development; Centre for the Future of Work.*

# Private finance is **fueling the climate crisis**

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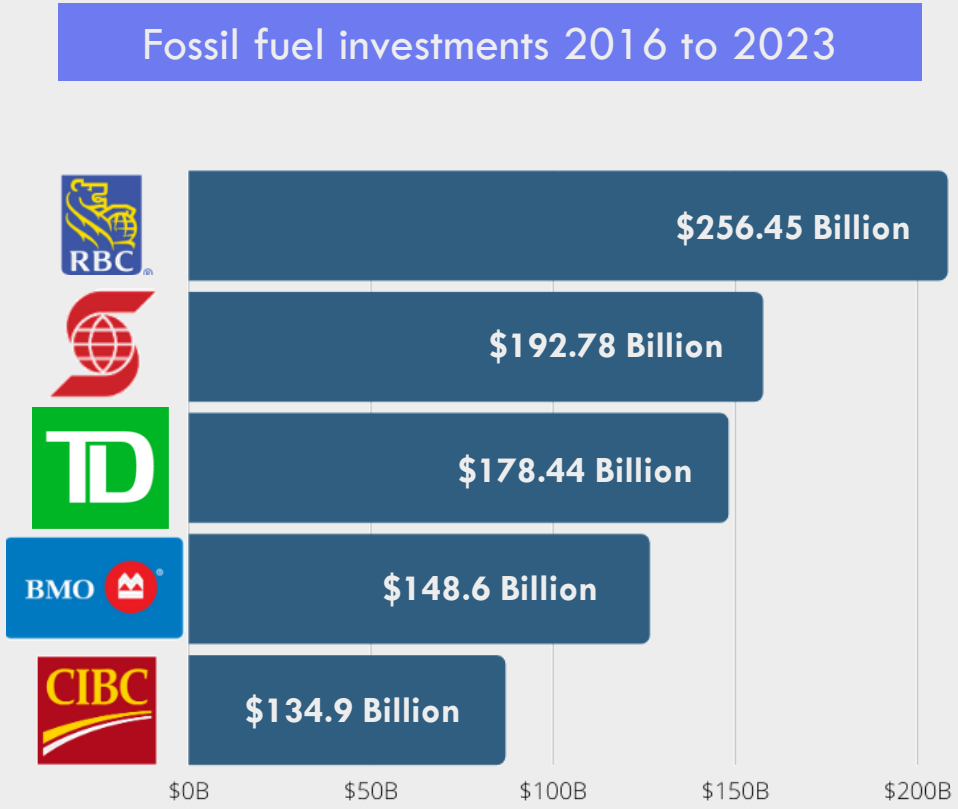
Private Canadian financial institutions are some of the largest investors in fossil fuels in the world.




From 2016-2023, Canadian banks financed **$911.15 billion** of $6.9 trillion invested into fossil fuels.

Bay Street institutions (banks, pension funds, insurance companies) financed over **$1.43 trillion** CAD in fossil fuel companies in 2022. Equivalent to 5th largest GHG emitting country; more GHGs than our national inventory.

In 2024, RBC ranked lowest amongst the world's major banks by Bloomberg's Energy Supply Banking Ratio for renewable to fossil fuel financing at 0.47.

But we also have leaders: Desjardins, a Canadian co-operative bank was ranked 9th in the world, investing 11x more in clean energy than in fossil fuels.

Ratio to achieve Paris Agreement temperature goal: 6:1.

***Source**: Stand.Earth, Climate Observatory*

# Public money is subsidizing the climate crisis

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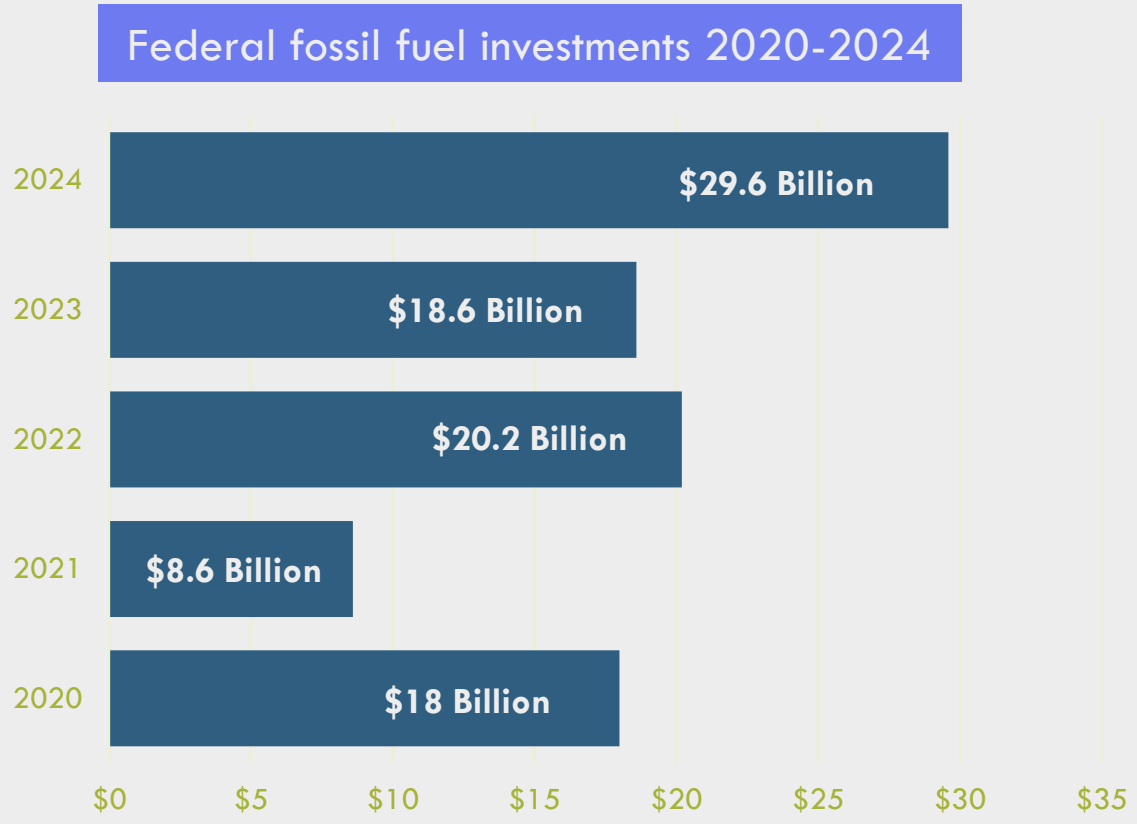
The Canadian government is also a major funder of oil and gas, using taxpayer dollars to subsize fossil fuel projects

Canada is one of the G20's largest financier of fossil fuels.

The federal government provided at least **$29.6 billion** to the fossil fuel and petrochemical industries in 2024 alone.

TMX is the most expensive infrastructure project in the country – costing each Canadian $800 – and seems to export oil at a loss.




Between 2020-2024, the federal government gave **$74.6 billion** in financial support to the oil and gas industry

***Sources***: National Observer, Environmental Defence; Oil Change International and Fiends of the Earth.

# Financial regulation is either unfit to deal with climate crisis (or badly interpreted)

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Financial regulation is biased against change because it is calibrated to past risk metrics:

*Relying on backward-looking risk estimates results in banks facing nearly double the loan loss provisions in low-carbon sectors than in high-carbon sectors, encouraging more investments in polluting activities such as fossil fuels.*

Matteo Gasparini et al, "Model-based financial regulations impair the transition to net-zero carbon emissions" (2024) 14 Nature Climate Change 476, based on European Banking Authority data

We need rules and practices that are calibrated to address an unprecedented and uncertain future.

# Case study: Indirect emissions

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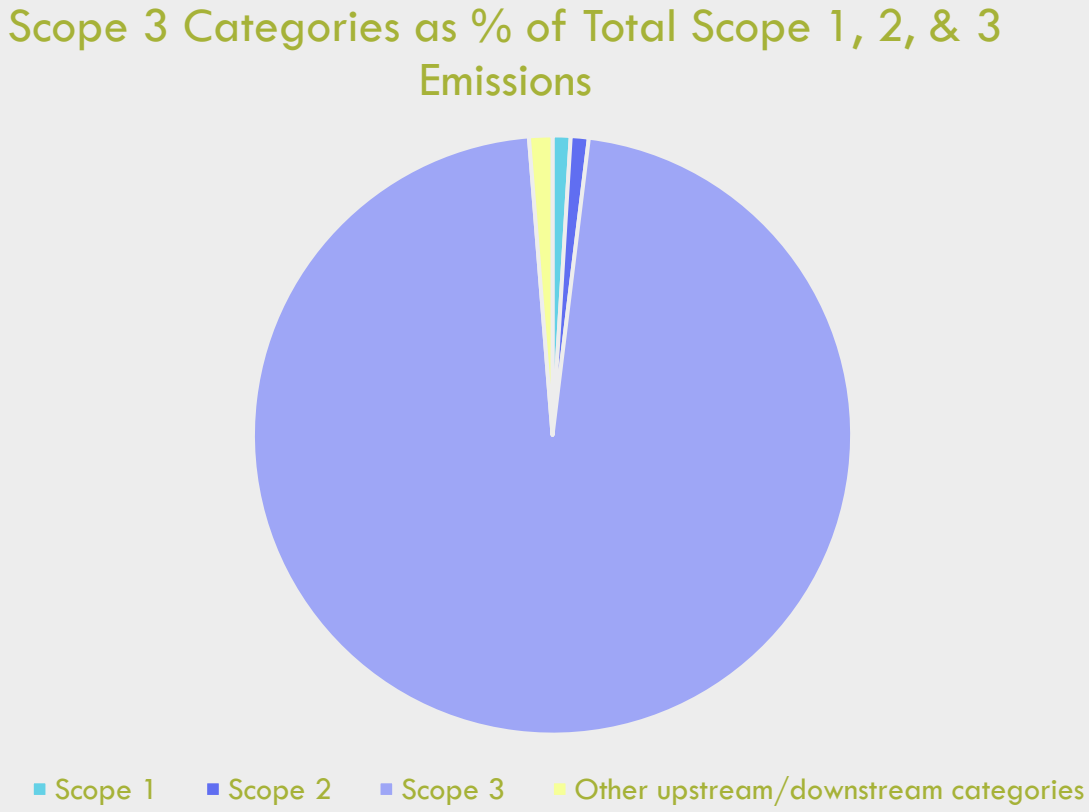
Financial institutions' biggest climate impact lies with how they allocate their capital flows

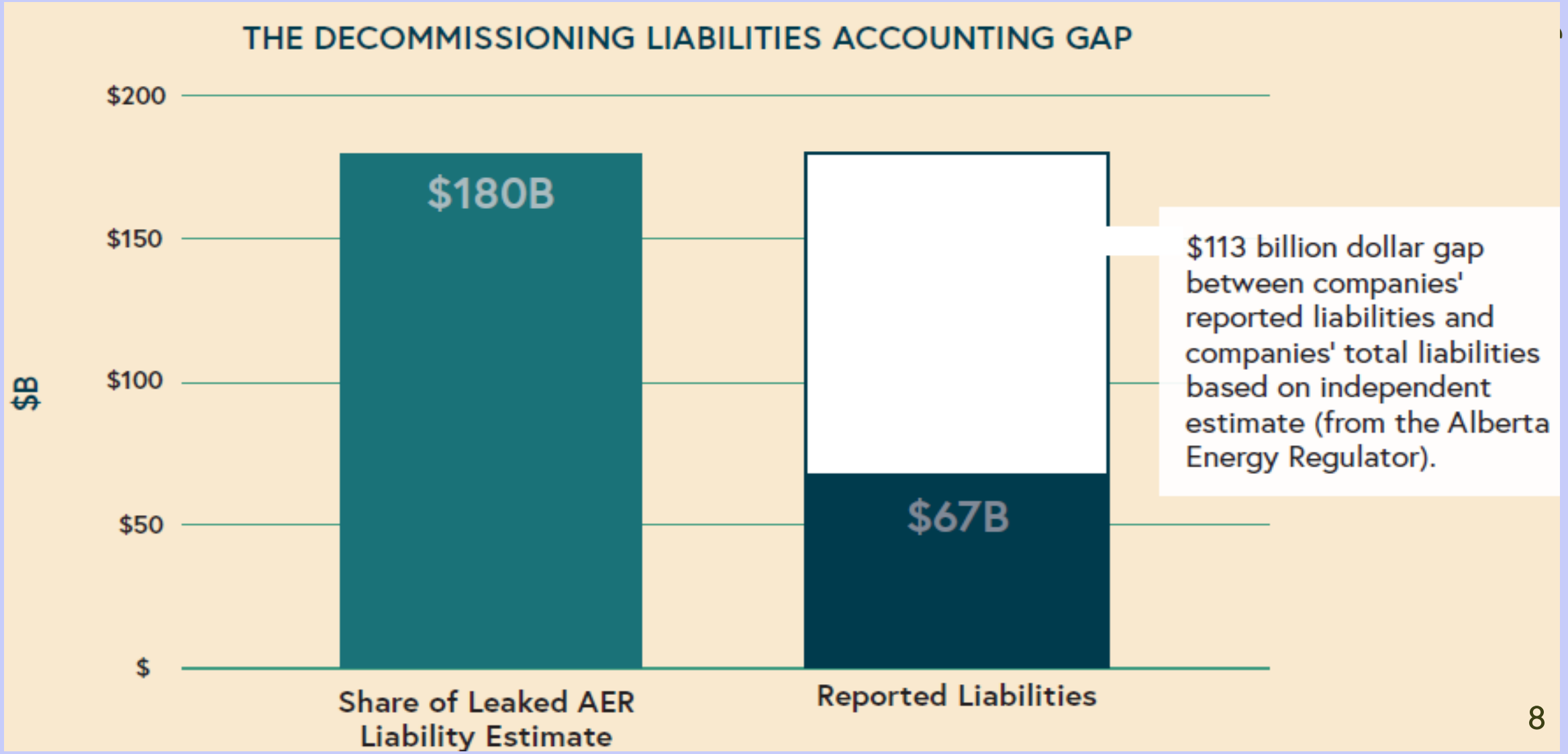
The portfolio emissions of global financial institutions are estimated to be over **700 times larger than direct emissions**. Fossil fuel investments comprise **99%** of total Scope 1, 2, and 3 emissions reported by the financial services sector.

- Office of Superintendent of Financial Institutions delayed implementation
- Canadian Securities Regulators paused rule-making
- The Climate-Aligned Finance Act (S-243) introduced in 2022 requires that all asset classes are included, absolute emissions reductions, and engagement with associated entities.




***Source***: *CDP Technical Note: Relevance of Scope 3 Categories by Sector*

# Example of ignored liabilities






Potential gap between companies' reported liabilities and estimates of actual liabilities, Investors for Paris Compliance, *Accounting for the Canadian oil & gas liabilities gap* (2025)

Example of ignored climate liabilities / liability risk

# Investors are 'flying blind' to risk of climate lawsuits

CLIMATE SOCIAL SCIENCES

Polluting companies could be liable for trillions in damages from climate lawsuits. But few investors and regulators are taking these risks into account when evaluating companies' climate-related financial risks, according to new Oxford Sustainable Law programme research published

# Board entanglements

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**Ties between pension fund directors and fossil fuels are 'incompatible' for some Canadians**

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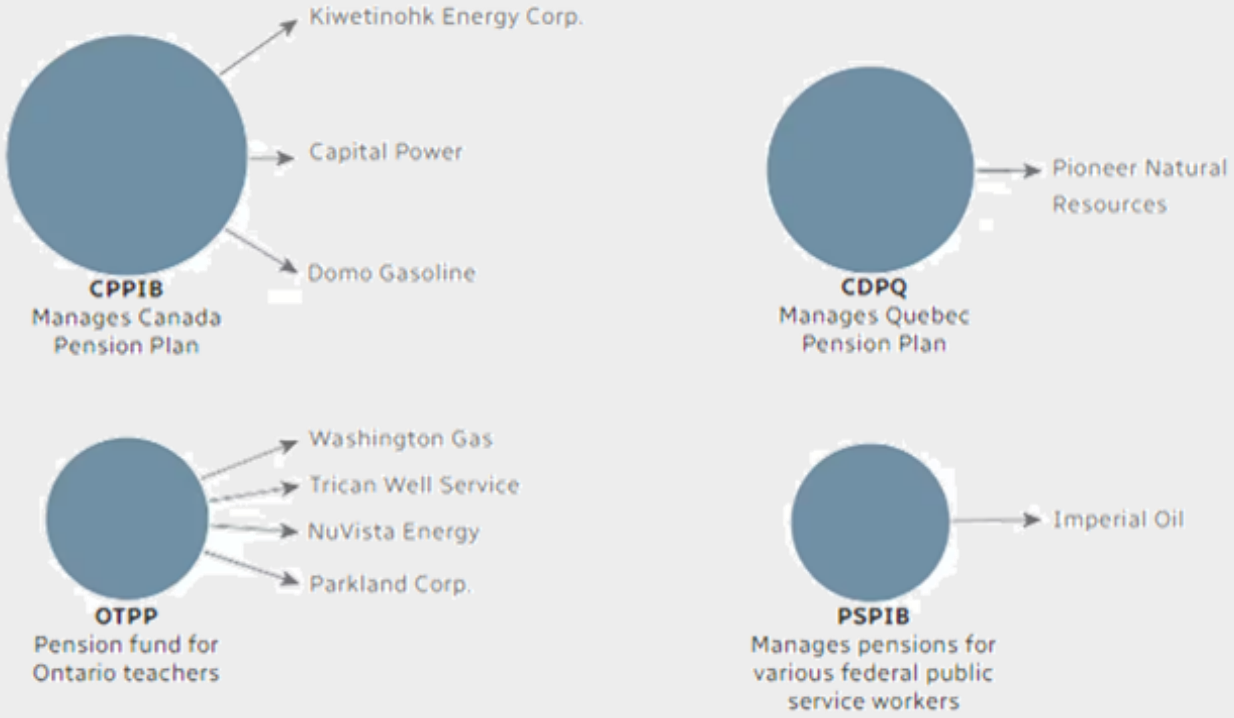
**New research exposes 'deep entanglement' between pension boards and fossil fuel companies**

Eight of Canada's 10 largest pensions fund managers had at least one high-ranking member, who is actively directing a company in the oil or gas sector in 2023




The deep interconnection between Canada's fossil fuel industry and the financial sector is contributing to the persistent inaction of the sector to shift investments in accordance with Canada's climate commitments.



**Source**: *Shift Action, CBC News analysis (CBC); Toronto Star*

# Economists grossly underestimate climate risk

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## Climate change is a viewed only as a "minor impediment" to economic growth

The global economy could face a **50% GDP loss** between 2070 and 2090 if greenhouse gas emissions are not curbed further. This is not captured in mainstream economic models.

| Year | 2025 | 2075 | 2130 | 2220 |
|---|---|---|---|---|
| GDP without global warming in 2019 US$ trillion as estimated by DICE | 173.3 | 595.1 | 1430.4 | 3654.5 |
| Temperature increase (relative to preindustrial era) | **1.2°C** | **3°C** | **5°C** | **7°C** |
| *Implied annual growth rate from 2025 without global warming* | N/A | 2.47% | 2.01% | 1.56% |
| Economic damages (% of global GDP) - Mean estimate | -1% | -5% | -10% | -20% |
| Economic damages (trillions of 2019 USD) - Mean estimate | -$1.7 | -$29.8 | -$143.0 | -$730 |
| Estimated GDP with global warming in 2019 US$ trillion | 169.5 | 544.5 | 1200.1 | 2933.6 |
| *Implied annual growth rate from 2025 with global warming* | N/A | 2.33% | 1.86% | 1.46% |
| *Implied decline in annual growth rate from 2025 caused by global warming* | N/A | 0.13% | 0.15% | 0.1% |



**Sources**: Carbon Tracker; Howard and Sylvan (2021).

# A more useful exercise

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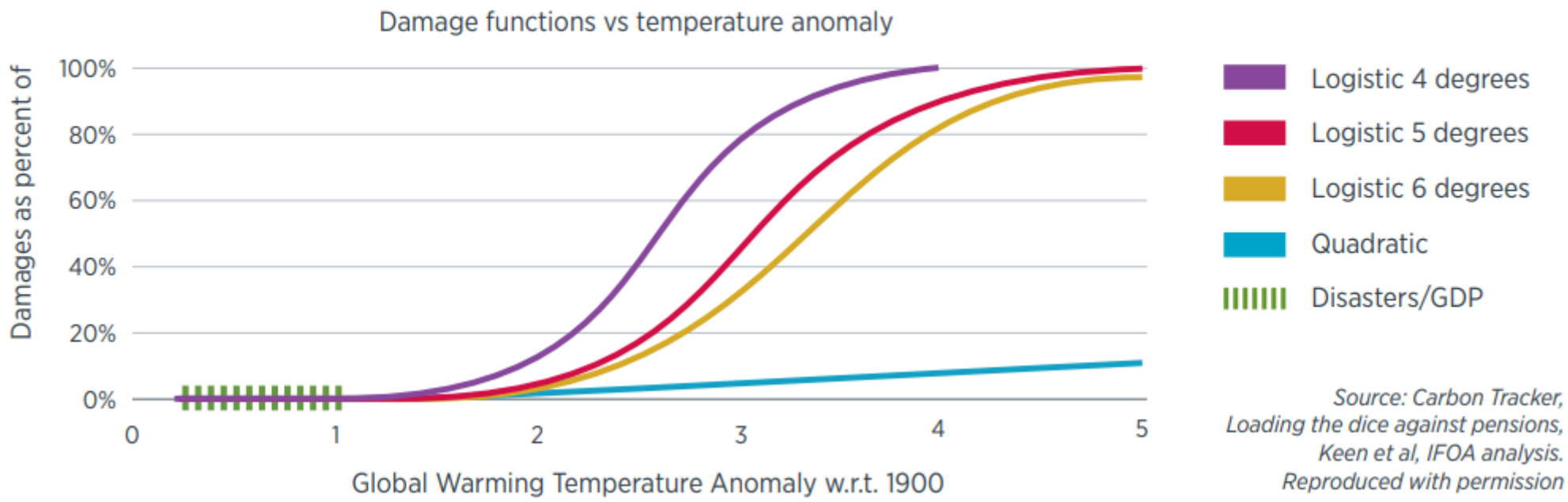
There is a wide gulf between mainstream economists whose research is relied upon to conduct climate risk analysis and climate scientists, leading actuaries, complexity economists about the impacts of climate change on the economy.

**Figure 13: Climate damage functions - % GDP loss vs temperature**




*Source: Carbon Tracker, Loading the dice against pensions, Keen et al, IFOA analysis. Reproduced with permission*



**Sources**: *Institute and Faculty of Actuaries*.

# The Climate-Aligned Finance Act (CAFA)

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*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

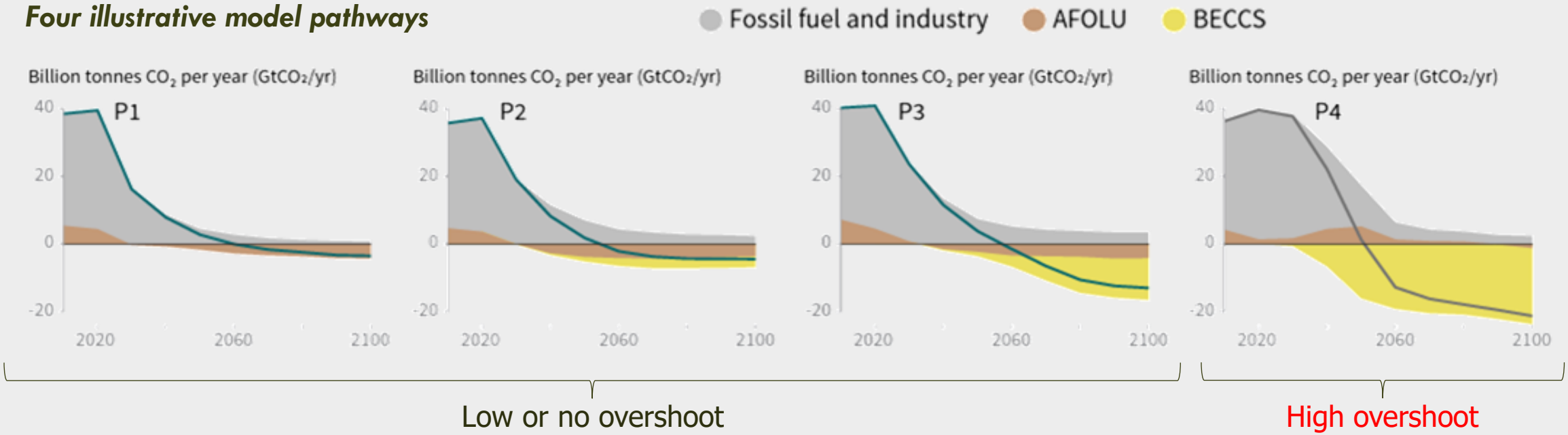
# Ambition

**1.5° is a physical limit, not a political target** - it recognizes the risk from tipping points that arise after 1.5 ° warming has occurred.

CAFA requires a "reduction of emissions on a pathway that respects the global carbon budget and is consistent with limiting global temperature increase to 1.5 degrees Celsius over pre-industrial levels, with no or low overshoot"

OSFI → 1.5°C (no details) TCFD → 2.0°C or lower

***Four illustrative model pathways***




***Source***: IPCC SR1.5; Institute and Faculty of Actuaries

# Offsets and negative emission technologies

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Carbon offsets, while seemingly a simple market-based solution for efficient emission reductions, carry significant limitations and risks, making them a controversial aspect of climate change mitigation

- The Climate-Aligned Finance Act acknowledges these concerns and attempts to build in safeguards limiting the use of carbon offsets in a judicious and nuanced way.
- According to CAFA, offsets cannot be used as a substitute for reducing operational or financed emissions they may only be used in cases where they are strictly necessary to neutralize minimal residual emissions that cannot be eliminated with existing technology

Regarding emission removal technology. CAFA specifically allows and would enable the future invention, discovery, or wide-scale deployment of emissions removal, capture, or storage technology for any purpose other than to justify continued or increased fossil fuel activities.

Even in the context of fossil fuel activities, it only forbids future reliance not current reliance, so it allows ongoing uses of emissions removal.The rationale being that if it is presently working, it should be allowed to continue.

**Canada Pension Plan sued by young people over climate risks**

*The CPP Investment Board announced in May that it dropped its commitment to achieve net zero emissions by 2050*

**CPP Investments accused of failing to properly factor climate risk**

**4 Youth Sue CPP Investments for Failing to Protect Pensions from Climate Risk**

Young Canadians sue pension fund over climate risk to pensions

Lawsuit claims CPP Investments' climate models put retirement security at risk for future generations

**Canada Pension Plan sued by young people over climate risks**

*The CPP Investment Board announced in May that it dropped its commitment to achieve net zero emissions by 2050*

Canadian pension fund sued over alleged climate risk management

The group alleges the largest pension fund manager in Canada is breaching its fiduciary duty by exposing pensions to unnecessary risk

**Young people sue Canadian pension giant alleging climate failures**

**Young Canadians accuse the Canada Pension Plan of mismanaging climate risks**

**CPP Investments accused of failing to properly factor climate risk**

TORONTO - Canada's largest pension fund is being sued by four young Canadians who claim that CPP Investments is failing to properly manage climate-related financial risk.

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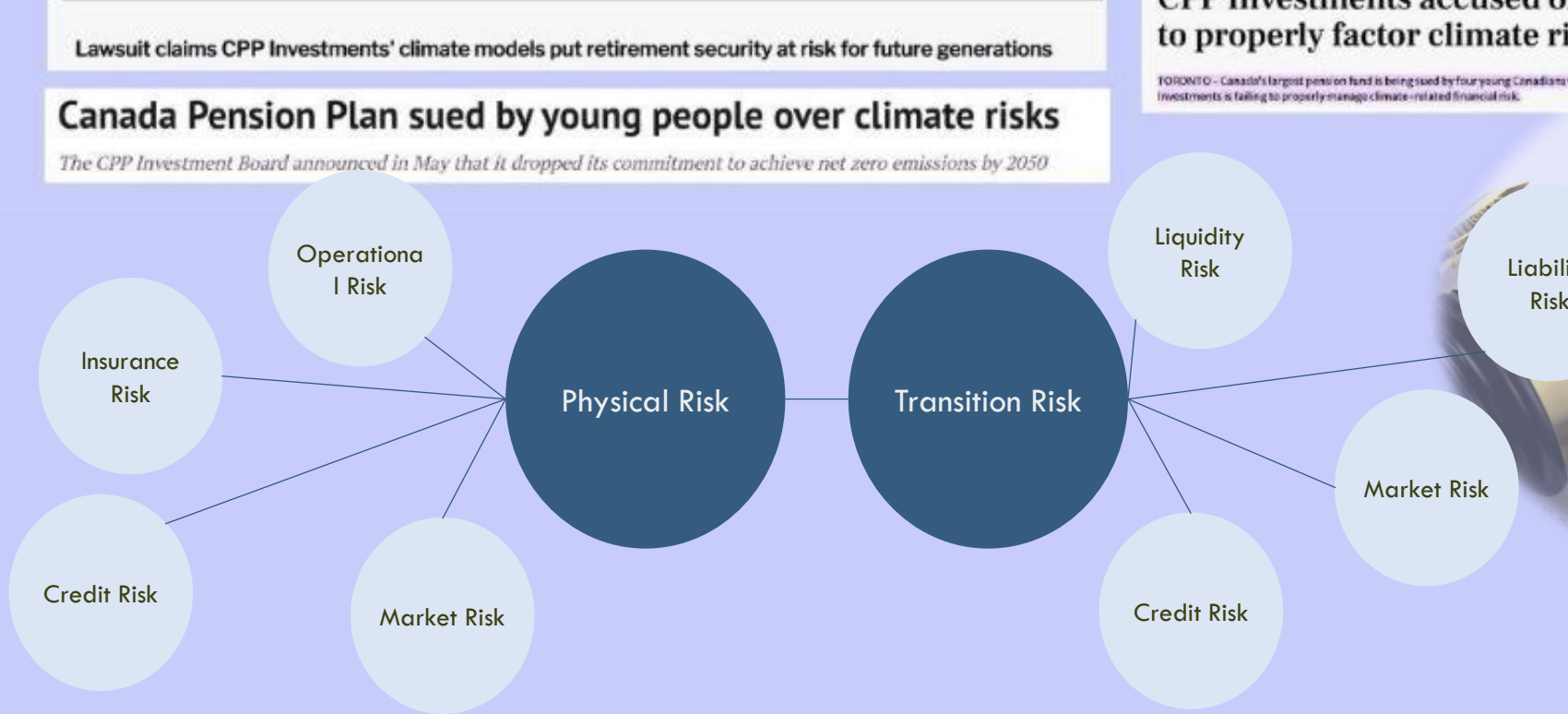



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Support CAFA Support LIFE
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