Submission to the Office of the Superintendent of Financial Institutions (OSFI)

Climate Change Consultation

April 2021

UNIFOR
theUnion | lesyndicat

Tel/Tél : 416-497-4110
Toll-free/Sans frais: 1-800-268-5763
Fax/Téléc : 416-495-6552

Unifor is pleased to offer the following comments to the Office of the Superintendent of Financial Institutions (OSFI) consultation in connection with the publication of the OSFI discussion paper, Navigating Uncertainty in Climate Change: Promoting Preparedness and Resilience to Climate-Related Risks. There are several major concerns we seek to raise in response to the discussion paper and more generally the specific focus by OSFI on risks arising from climate change and the potential affect of such risk on the safety and soundness of federally regulated financial institutions (FRFIs) and more particularly, federally regulated pension plans (FRPPs).

Unifor members are employed in many key sectors of the economy, including sectors that contribute a majority of greenhouse gas emissions in Canada such as oil extraction, upgrading and refining; natural gas processing and distribution; petrochemicals; automobile, truck and bus manufacturing; aerospace; mining; aluminium and pulp and paper. Many other Unifor members work in so-called “clean tech” or green sectors such as public transit, passenger rail, energy retrofitting, retail, telecom and health care.

Unifor has strong core policies on a wide range of environmental, value-added economic development and energy sustainability issues. Unifor and its predecessor unions have intervened in several National Energy Board hearings to oppose major export bitumen pipelines on the basis that the economic development model those pipelines were based on was at the expense of value-added job content in Canada, and contributed to an unsustainable pace of development in the oil sands. However, Unifor supported the Line 9 pipeline that provides crude oil to Quebec refineries. Unifor also participates as a social partner in the Climate Action Network, the Green Economy Network and the Blue Green Alliance in support of climate and more broadly environmental action.

Unifor Constitution: PREAMBLE

5. We form Unifor at a time when our world is rocked by social upheaval and **our very planet is threatened by environment degradation and climate change**.

In relation to this OSFI consultation, we would note that earlier this year Unifor also stated several positions in regards to climate change, and more generally we stated our perspectives regarding incorporating environmental, social and governance (or ESG) factors within pension plan investment strategies in the Federal Department of Finance consultation. That submission was in response to the consultation on potential solvency funding relief options and further measures to strengthen the framework for federally regulated pension plans as set out in the consultation paper, **Consultation on Strengthening Federally Regulated Pension Plans.** Our submission remains available at **https://www.unifor.org/en/whats-new/briefs-statements/unifor-response-consultation-strengthening-federally-regulated-pension**

Unifor Constitution: OBJECTIVES

In broader society

- To safeguard, protect and extend freedom, civil liberties, democracy and democratic trade unionism.
- To be broadly politically active at the municipal, provincial and federal levels and to mount issue-based campaigns.
- To fight for social and economic reform by giving priority to good jobs, equality and social justice.
- To protect and safeguard the health and safety of the planet by supporting the goal of an environmentally sustainable future.
- To build and unify the labour movement and to act in solidarity with other labour organizations in Canada and throughout the world with objectives similar to ours.
- To support and work in common cause with progressive organizations in Canada and around the world.
- To resist corporate globalization and provide alternatives to job-destroying trade deals and policies.
- To work to end war and contribute to world peace

Both of our submissions are on behalf of Unifor members as the largest union in the private sector, totalling 315,000 members across Canada. Unifor specifically represents some 66,000 workers in federally regulated sectors including energy, transportation, media, telecommunications, and financial services. Our members and retirees are also participants in many of the federally regulated defined benefit (DB) pension plans that OSFI regulates, which together hold over $215.5 billion in assets that are in part the focus of this consultation.

Unifor has from its inception been motivated and guided by environmental, social and governance factors. Unifor was formed as the result of the merger in 2013 between the Communications, Energy and Paperworkers' and the Canadian Auto Workers' unions. We formed Unifor knowing at that time that the world was rocked by social upheaval and our very planet threatened by environmental degradation and climate change, to paraphrase the Preamble to the Unifor Constitution adopted.

Our Constitution's Preamble also spoke to a relentless race to the bottom; an abandonment of social progress in the name of austerity; a growing insecurity and declining quality of life, as well as a growing precariousness, with our rights and well-being at work increasingly in jeopardy. We also spoke of our hope that good jobs and economic progress could still be won; that our workplaces could become safer, our jobs more secure, our wages and benefits more rewarding and our lives at work defined by dignity and respect.

Indeed, we formed Unifor in the bold determination that equality and social justice could be achieved, that our young could have a brighter future and that through our actions, our world could be made a different and better place. We formed Unifor as an expression of our collective commitment to fight for all of that, and our solemn determination to succeed.

Environmental, social and governance (ESG) factors therefore remain absolutely at the core of our hopes and strategies and vital to our Constitution and its stated Objectives. Elsewhere, at Article 3 Objectives in the Constitution we committed ourselves to protect and safeguard the health and safety of the planet by supporting the goal of an environmentally sustainable future. We also accepted the challenge to safeguard, protect and extend freedom, civil liberties, democracy and democratic trade unionism; to fight for social and economic reform and prioritizing good jobs, equality and social justice - while resisting corporate globalization.

In our January 2021 submission to the Department of Finance consultation, we indicated our support for any efforts by OSFI and the Department of Finance to encourage pension plans to adopt ESG factors into a pension plan's investment analysis and asset holdings. This is simply consistent with and aligned with in our view the plan administrators' fiduciary duties to plan members, retirees and their surviving spouses and beneficiaries.

> **Investment Guidance Notes IGN-004 Environmental, Social and Governance (ESG) Factors. FSCO**
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> While there is no standard definition of ESG factors that has been accepted among the investment community, "ESG factors" can be described as a broad term that encompasses a wide range of environmental, social, and governance factors. Environmental factors relate to a company or industry's interactions with the physical environment, social factors concern the social impact of a company and/or industry on a community or society, and governance factors typically relate to how companies and/or countries are governed.

We also recognized and applauded the Canadian Expert Panel on Sustainable Finance in 2019 and the recommendation set out in its final report – Mobilizing Finance for Sustainable Growth – that the federal government require federally regulated pension plans to disclose in their Statement of Investment Policies & Procedures (SIPP) whether and how climate change risk issues are considered from a perspective of ensuring sustainable growth.

Unifor appreciates that OSFI is suggesting that a broader discussion on ESG factors 'may be considered' in future discussion papers. However, for the present consultation OSFI is seeking to restrict or limit the focus very specifically to climate-related risks. That would seem to Unifor to be a very artificial and constraining approach given the general presumption that climate change is situated within the broader context of environmental sustainability; as an element of environmental, social, and governance (ESG) factors – and the inherent risks to investors and their assets of ignoring such factors.

In our 2021 submission to the Department of Finance, we noted that in 2016 the Province of Ontario became the first jurisdiction in Canada to adopt an ESG disclosure rule, rather than simply a climate change risk rule. Under Regulation 909 at section 40(v)(ii) of the accompanying regulation to the *Pension Benefits Act*, disclosure was now required in both annual statements to members and deferred vested members, and in biennial statements to retirees or surviving spouses.

In addition to the ESG disclosure obligations to the plan members and beneficiaries, we commended the Ontario Government for also developing policy guidance, expressed in their Investment Guidance Notes: Environmental, Social and Governance (ESG) Factors document that ESG integration was an appropriate method of taking into account any and all financially material risks and opportunities. While the guidance did not purposefully define or limit ESG factors, FSCO (as it was then known) required a registered pension plan's statement of investment policies and procedures (SIPP) to include information as to whether environmental, social, and governance (ESG) factors were incorporated into the plan's investment policies and procedures and, if so, how those factors were incorporated.

Also at the forefront of this consultation we also must recognize that Unifor member's pensions represent a deferral of their compensation as workers, as this is axiomatic to our Union. In the form of retirement savings, these pensions amount to over $2 trillion in Canada held in trust for workers[1] as beneficiaries and typically invested in capital markets across the globe. Yet, although workers are therefore indirectly, owners of countless public companies, infrastructure

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[1] https://ccsn-rcic.ca/

projects, real estate, private funds and other assets, they have very little control or voice over how their pension capital is often invested. This workers' capital can be a tremendous source of power in building an economy that upholds workers' rights and advances broader societal goals for a just and sustainable economy.

The Tragic Urgency of Climate Change

Government policymakers and financial institution regulators now broadly recognise that issues such as climate change and sustainable development represent material and systemic risks as well as opportunities (and not only to the financial system) that require explicit and targeted interventions. Unifor has also recognized that climate change has become the defining social challenge of our epoch. If our species cannot substantively alter the trajectory we have set in place over the past 150 years in terms of the path of our economic development, and particularly our consumption of fossil fuels, we face a very uncertain future. Not simply a very risky future, but in fact a very uncertain future.

According to Canada's Changing Climate Report[2] led by Environment and Climate Change Canada, the global mean surface temperature (GMST)[3] has risen an estimated 0.85°C (90% uncertainty range between 0.65°C and 1.06°C) over some 132 years between 1880 and 2012 – with the advent of the modern industrial era. Each of the last three full decades (1980s, 1990s, and 2000s) has broken successive records for average 10-year temperatures.

Most alarmingly is the fact that the years 2015, 2016, and 2017 are the warmest on record, with GMST more than 1°C above the pre-industrial average level. The Report also notes that in regards to both past and future warming in Canada, we are in Canada on average also experiencing about double the magnitude of global warming. Given the vast expanse of the Canadian north, that is deeply troubling and problematic and is especially impactful on First Nations, Inuit and Métis peoples.

We appreciate that the type and nature of future climate-related risks also depends on the rate, peak and duration of global warming. These risks are larger according to the Intergovernmental Panel on Climate Change (IPCC) Special Report on Global Warming of 1.5°C if global warming exceeds 1.5°C before returning to that level by 2100 than if global warming gradually stabilizes at 1.5°C, especially if the peak temperature is high (e.g., about 2°C above the GMST).

Some risks may well be long-lasting if not irreversible, such as the loss of species and ecosystems. The relative importance for restraining our carbon emissions is of course not simply a matter of risk, but of uncertainties and the impacts of choices regarding non-CO2 mitigation increases as global warming thresholds are approached. More importantly, uncertainties (as opposed to simply risks)[4] in regards to the possible variation in climate

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[2] https://changingclimate.ca/CCCR2019/

[3] estimated as the average (or mean) temperature for the world from measurements of sea surface temperatures and of near-surface air temperatures above the land

[4] Being the distinction credited to Frank Knight where risk applies to situations where we do not know the outcome of a given situation, but can accurately measure the odds. Uncertainty, on the other hand, according to Knight applies to situations where we cannot know all the information we need in order to set accurate odds in the first place. See https://news.mit.edu/2010/explained-knightian-0602.

response; the level of historic warming, and the role of future permafrost thawing and potential methane release from wetlands are all critical in regards to the urgency for prudence in estimating remaining carbon emissions.

We would emphasized that the IPCC report set the context of assessing measures to strengthening the global response to climate change in the context of **sustainable development and efforts to eradicate poverty**, as well as specifically in light of the UN Sustainable Development Goals (SDGs). The report is important in noting that redistributive policies such as 'just transition' across sectors and populations to shield the poor and vulnerable can resolve societal trade-offs for a range of SDGs, where climate change measures may conflict with other vital SDG goals, particularly reducing hunger and poverty. The report further notes that the social investment needs for such complementary policies to resolve these conflicts are only a small fraction of the overall mitigation investments in 1.5°C pathways.

"This is Our World" – A Global Response

To meet this global climate change challenge effectively, we are required as never before as a global community to co-operation and collaborate through international agencies to develop effective collective measures to immediately tackle and solve the challenge with global action. Governments, civil society institutions and asset owners across the globe are increasingly committing to work together to limit global warming, recognizing that climate-related risks and more importantly, climate-related uncertainty grows with the magnitude of warming and associated changes in our ecology.

Similar to the way our Unifor Constitution guides and orientates our work as a union, there is certainly an obvious and fundamental global framework of principles to guide this collective effort. That framework contains similar principles of justice, equal rights and self-determination of peoples, and respect for human rights and fundamental freedoms for all without distinction as to race, sex, language, or religion as set out in the Charter of the United Nations.

Frequently the influential Paris Agreement on climate change under the **United Nations Framework Convention on Climate Change**, entered into force on November 4, 2016 is cited as authority for and illustration of the primacy of confronting climate change. We agree on the primacy of addressing climate change but separate on treating climate change exclusively and separately from the disparate impact on the peoples of this world.

Charter of the United Nations

Article 55
With a view to the creation of conditions of stability and well-being which are necessary for peaceful and friendly relations among nations based on respect for the principle of equal rights and self-determination of peoples, the United Nations shall promote:

- higher standards of living, full employment, and conditions of economic and social progress and development;
- solutions of international economic, social, health, and related problems; and international cultural and educational cooperation; and
- universal respect for, and observance of, human rights and fundamental freedoms for all without distinction as to race, sex, language, or religion.

The Paris Accord is not simply a climate plan. We agree that the Paris Accord does establish a goal of holding the increase in global temperature to 1.5ºC–2ºC above pre-industrial levels, as well as a commitment to engage in mitigation and adaptation planning and implementation. And with the United States under President Biden rejoining, the Accord is now reinvigorated and the preeminent global accord to address climate change.

But as a global accord on climate, it must be appreciated in view of the complimentary and facilitative global framework developed around ESG factors and the principles of sustainable development and responsible investing. In 2006, the United Nations announced the **Principles for Responsible Investment**, following the invitation by UN Secretary-General Kofi Annan to a group of the world's largest institutional investors to join a process to develop Principles for Responsible Investment in a unique partnership with the **UN Environment Programme** (UNEP) and the global financial sector. UNEP FI works closely with over 200 financial institutions that are signatories to the UNEP FI Statement on Sustainable Development, and a range of partner organisations, to develop and promote linkages between sustainability and financial performance. The PRI as of March 31, 2020, had 3,038 signatories, representing US$103.4 trillion in assets, including pension funds, insurers, investment managers and service providers globally.

Principles for Responsible Investing

"As institutional investors, we have a duty to act in the best long-term interests of our beneficiaries. In this fiduciary role, we believe that environmental, social, and corporate governance (ESG) issues can affect the performance of investment portfolios (to varying degrees across companies, sectors, regions, asset classes and through time).

We also recognise that applying these Principles may better align investors with broader objectives of society. Therefore, where consistent with our fiduciary responsibilities, we commit to the following:

- **Principle 1:** We will incorporate ESG issues into investment analysis and decision-making processes.
- **Principle 2**: We will be active owners and incorporate ESG issues into our ownership policies and practices.
- **Principle 3**: We will seek appropriate disclosure on ESG issues by the entities in which we invest.
- **Principle 4:** We will promote acceptance and implementation of the Principles within the investment industry.
- **Principle 5**: We will work together to enhance our effectiveness in implementing the Principles.
- **Principle 6:** We will each report on our activities and progress towards implementing the Principles.

The other significant social partner in the PRI is the **United Nations Global Compact**, which is self-described as the "world's largest corporate sustainability initiative, and a call to global corporations to align their actions with universal principles on human rights, labour, environment and anti-corruption, and advance those principles as societal goals. The Global Compact was launched in 2000 as both a policy platform and a practical framework for those committed to sustainability and responsible business practices.

In 2015, the United Nations further announced the Sustainable Development Goals (SDG) as part of the **2030 Agenda for Sustainable Development**, adopted by all United Nations Member States and providing a shared blueprint for peace and prosperity for people and the planet. At its heart are the 17 Sustainable Development Goals (SDGs), which are an urgent call for action by all signatory countries to this global partnership. The Goals build on decades of work by member states and the UN recognizing that ending poverty and other deprivations must go hand-in-hand with strategies that improve health and education, reduce inequality, and spur economic growth – all while tackling climate change and working to preserve the world's oceans and forests.

More to the point, the 2015 Paris Accord occurred in the context of a landmark year for multilateralism and international policy shaping, with the adoption of several major agreements:

- Sendai Framework for Disaster Risk Reduction (March 2015)
- Addis Ababa Action Agenda on Financing for Development (July 2015)
- Transforming our world: the 2030 Agenda for Sustainable Development with the 17 SDGs as adopted at the UN Sustainable Development Summit in New York (September 2015).
- Paris Agreement on Climate Change (December 2015)

The necessity of considering climate change in conjunction with ESG factors and as part of sustainable development and responsible investing is therefore consistent with and reflective of the actual intent expressed in the Paris Agreement. The Paris Agreement has a long-term goal of achieving "*a balance between anthropogenic emissions by sources and removals by sinks of greenhouse gases in the second half of this century, **on the basis of equity, and in the context of sustainable development and efforts to eradicate poverty***."[5]

The Parties to the Paris Agreement provided great detail and actually set out the following in the Preamble:

> *Recognizing* the need for an effective and progressive response to the urgent threat of climate change on the basis of the best available scientific knowledge
> …
> *Emphasizing* the intrinsic relationship that climate change actions, responses and impacts have with **equitable access to sustainable development and eradication of poverty**,
> *Taking into account* the imperatives of a **just transition of the workforce and the creation of decent work and quality jobs** in accordance with nationally defined development priorities.
>
> *Acknowledging* that climate change is a common concern of humankind, Parties should, when taking action to address climate change, respect, promote and consider their respective obligations on human rights, the right to health, the rights of indigenous peoples, local communities, migrants, children, persons with disabilities and people in vulnerable situations and the right to development, as well as gender equality, empowerment of women and intergenerational equity

The Paris Accord is therefore not simply a commitment to address climate change regardless of the broader ESG issues at stake, nor the very principles also universally accepted in support of sustainable development, equity and equality and just transition. It would be as one specific example of this interplay, impossible to address climate change in Canada without recognition of the profound interrelationship of these issues and support for the United Nations Declaration on the Rights of Indigenous Peoples (UNDRIP). We trust that Canada will indeed enact Bill C-15 as the federal government's response to calls to implement UNDRIP as a framework for reconciliation in Canada.

Without a profound change in the relationship between Canada and its' First Nations, Inuit and Métis peoples, there can be no justice, no healing and no end to the daily violations of Indigenous peoples' human rights. Tragically, the First Nations, Inuit and Métis peoples in

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[5] https://unfccc.int/files/meetings/paris_nov_2015/application/pdf/paris_agreement_english_.pdf

Canada are characteristically the most adversely impacted groups by these various same climate, biodiversity and other environmental challenges. As another illustration, any climate action plan needs to co-exist with Canada's Poverty Reduction Strategy which introduced, for the first time ever, an official poverty line for Canada, as well as targets to reduce poverty by 20% by 2020 and 50% by 2030 based on the official measure of poverty[6].

We also emphasize that in the text of the Paris Accord, at Article 2 of the Agreement, the parties expressly situated the strengthening of the global response to the threat of climate change, in the context of sustainable development and broader efforts to eradicate poverty. We would also note the comments by Bank of Canada Deputy Governor Timothy Lane to the Finance and Sustainability Initiative[7] in March 2017 following the Paris Accord in a speech entitled: Thermometer Rising—Climate Change and Canada's Economic Future which highlighted climate change as one of the biggest challenges facing Canada and the world in the 21st century.

He expressly applauded the Finance and Sustainability Initiative as hosts of the event for their leadership in promoting responsible investment for sustainable development and identified their work as "vital to putting finance **at the service of environmental sustainability**—helping the private sector to identify the risks and opportunities inherent in climate change and green finance". Lane cannot be alone in recognizing that the finance industry (in Quebec at least) understands the appreciation and expertise in sustainable finance among financial actors in the ESG and sustainability ecosystem in Quebec.

Paris Agreement Article 2

1. This Agreement, in enhancing the implementation of the Convention, including its objective, aims to strengthen the global response to the threat of climate change, **in the context of sustainable development and efforts to eradicate poverty**, including by:

(a) Holding the increase in the global average temperature to well below 2 °C above pre-industrial levels and to pursue efforts to limit the temperature increase to 1.5 °C above pre-industrial levels, recognizing that this would significantly reduce the risks and impacts of climate change;

(b) Increasing the ability to adapt to the adverse impacts of climate change and foster climate resilience and low greenhouse gas emissions development, in a manner that does not threaten food production;

(c) Making finance flows consistent with a pathway towards low greenhouse gas emissions and climate-resilient development.

2. This Agreement will be implemented to reflect equity and the principle of common but differentiated responsibilities and respective capabilities, in the light of different national circumstance.

We certainly appreciate that OSFI anticipates that a broader discussion on ESG factors may be considered in future discussion papers, and therefore has focused more specifically and exclusively on climate-related risks [and hopefully, uncertainties] that can affect the safety and soundness of a federally regulated financial institution or pension plan on this occasion. This is unfortunate as the discussion of climate-related risks is limiting if not a myopic when

[6] https://www.canada.ca/en/employment-social-development/programs/poverty-reduction/reports/strategy.html
[7] https://www.bankofcanada.ca/2017/03/thermometer-rising-climate-change-canada-economic-future/

deliberately focused exclusively on 'climate-related risk' for the financial sector. While it focuses on what we are collectively saving the world from, it ignores the broader issue of what we are saving the world FOR. Action to address climate change cannot ignore and does not compete with complimentary social development and sustainability measures. Many countries have started to implement the Paris Climate Agreement as well as UN Sustainable Development Goals (SDG) in national policy and regulations. Numerous corporations and institutional investors have adopted ESG processes and the principles of responsible investing to measure the sustainability and societal impact of an investment in a company or business – consistent with and in conjunction with measures to address climate change.

> Capital Markets Modernization Taskforce Final Report, January 2021
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> **Increased investor interest in environmental, social and governance (ESG) factors**
>
> Recently, capital markets across the world have seen a rise in ESG-driven investing.
>
> 98 per cent of Canadian institutional investors expect ESG-integrated portfolios to perform on par or better than those that do not integrate ESG factors.
>
> Evidence suggests that the inclusion of ESG criteria positively correlates to investment performance, which has prompted greater transparency and interest in ESG policies.
>
> Recently, four global accounting firms — Deloitte, PwC, EY and KPMG — were among the world's largest companies in the International Business Council to adopt ESG standards for their 2021 reporting.
>
> A recent survey of institutional investors, consultants and investment professionals from RBC Global Asset Management, listed the top ESG concerns for investors as corruption, climate change risk and shareholder rights.
>
> Additionally, the survey showed that the COVID-19 pandemic has raised investor consideration around labour relations, supply chains and diversity.
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> Greater ESG disclosure helps investors understand not only potential risks for the issuer but also the opportunities. [footnoted omitted]

If there are any relevant lessons from the earlier UN Global Compact and PRI experiences, and more recently the UN Social Development Goals, it would simply be that efforts to achieve sustainable finance or responsible investing largely driven by the initiative of corporations based on voluntary adoption and market-based initiatives[8] are unlikely to succeed. That conclusion should therefore require consideration of other measures and initiatives, rather than narrowing the focus to only consider climate change risk.

Climate change through the sustainability lens

It is noteworthy how broadly in recent years financial institutions and especially pension plans in Canada have adapted to embrace climate change considerations within the broader context of environmental sustainability - as an element of incorporating ESG factors. ESG factors are now widely discussed, particularly in the investment community, precisely because they all pose increasing material financial and reputational risk and uncertainty to investors and asset owners whether in conjunction with or separate and apart from climate change risk.

In one specific example, at a pivotal moment for real action to rectify disparities in our society and the workplace in connection with Black Lives Matter and the broader campaign to address diversity, equity and inclusion (DEI), several prominent institutions in Canada's pension industry signed onto the BlackNorth Initiative, pledging to take specific actions within their organizations

[8] PRI, Taking Stock: Sustainable Finance Policy Engagement and Policy Influence, 2019

to tackle anti-Black systemic racism.[9] Both the #MeToo and Black Lives Matter protests highlighted the broader struggles for equity and justice in confronting intolerance, including addressing systemic diversity issues around gender, race, diversity/inclusion, socio-economic inequities, harassment, LGBTQ+ issues, white privilege, and ableism.

And then in November 2020 eight of Canada's largest and leading public sector pension plans, representing approximately $1.6 trillion in assets under management, announced they were joining forces to help shape a future defined by more sustainable and inclusive economic growth. They issued a call for companies and investment managers to:

> "*provide consistent and complete environmental, social, and governance (ESG) information to strengthen investment decision-making and better assess and manage their collective ESG risk exposures*".

In support of this same initiative Tiff Macklem, Governor of the Bank of Canada is quoted in the accompanying press release stating:

> "*A strong commitment to environmental sustainability, diversity and inclusion and good governance principles will not only make our economy and financial system more resilient, it's also the right thing to do. Leadership from Canada's financial sector is essential as we focus on building an enduring and more equal economic recovery from the pandemic. I applaud the commitment expressed today by Canada's leading pension plan investment managers*."[10]

The joint statement by major Canadian pension plans further committed the signatories to the ambition of strengthening DEI and ESG disclosure within their organizations and allocating capital to investments best placed to deliver long-term sustainable value creation. If only it were that simple.

Both CPP Investments and PSP Investments as signatories to the November statement ironically were dealing at the same time with their own ESG controversies. For PSP Investments the concerns were specifically in respect of Revera and ownership of Long-Term Care (LTC) facilities that demonstrably failed their residents during the

Global Pensions Asset Study, Thinking Ahead Institute, 2021

The 'ESG unstoppable train' is picking up pace and in some case is being turbo-charged by climate change and accelerating to net zero. The investment world is undergoing a paradigm shift in extending from the two-dimensional model (risk and return) to a three-dimensional one (risk, return and impact); from a risk return optimisation paradigm to the dual organising principles around return optimising and sustainability alignment; from the narrow precepts of MPT and market fundamentalism to systems-theory, multi-stakeholders and a society context.

[9] https://www.benefitscanada.com/canadian-investment-review/db-investments/canadian-pensions-consultants-institutional-investors-sign-pledge-to-tackle-anti-black-racism/

[10] https://hoopp.com/newsroom-details/canadian-pension-ceos-call-for-sustainable-and-inclusive-economic-growth

onset of the COVID-19 pandemic and in respect of its share ownership in private US prisons[11] or CPPIB and the proposed investment in Bolsonaro's water privatization in Brazil.[12]

Increasing attention focused on CPP Investments as well for the questionable robustness of their claimed commitment to climate change and emissions reductions goals[13]. It has been publicly noted that CPP Investments remains outside of the largest global investor initiatives coordinating system-wide financial action on climate change - notably the Climate Action 100+ Coalition and the Net Zero Asset Owners Alliance[14]. Certainly the role of Canada's workplace pension assets in supporting a low-carbon transition in the context of a just transition and development of strategies for near-term portfolio decarbonisation is worthy of public disclosure and debate, as is the voice of the penultimate owners and beneficiaries of those assets.

FINAL REPORT of the EXPERT PANEL on SUSTAINABLE FINANCE

Informed by Transparency: Policy and economic decision-making requires accurate, consistent and timely information, putting a premium on disclosure and transparency.

Inclusive and Just: The costs of climate change and the benefits of transition will not be distributed equally across communities, regions and sectors. Change will bring significant new opportunities but also inevitable disruption, which need to be considered holistically across the country.

Comply or Explain – Mandating ESG Disclosure

We note as well the adoption of the Final Report of the Expert Panel on Sustainable Finance: Mobilizing Finance for Sustainable Growth (2019), and particularly the recommendation that there be a statutory requirement for a mandated "comply or explain" obligation with a phased implementation. This is consistent with the Task Force on Climate-related Financial Disclosures (TCFD) recommendations for Canadian companies, including financial institutions and pension plans (albeit by voluntary adoption).

We agree with the Expert Panel recommendation that federally regulated pension plans must be required to disclose whether and how climate issues are considered in their SIP&P, including the rationale or justification for any non-consideration, in the context of ESG factors. We also appreciate that the implementation will be staged to permit smaller pension plans a reasonable phase-in in conjunction with proactive support from OSFI around that implementation. We strongly recommend a robust engagement with plan members and beneficiaries – building the ESG and climate response in tandem with communication and dialogue with plan members and beneficiaries.

We accept the recommendations of the TCFD as a necessary common and consistent starting point but we also recognize the TFCD as a private sector-led Task Force established by the Financial Stability Board developed these recommendations for climate-related financial risk

[11] https://www.thestar.com/business/2021/03/15/canadas-largest-public-sector-pension-sells-off-stakes-in-two-us-private-prison-giants.html

[12] https://publicservices.international/resources/news/canadian-pension-plan-dollars-are-being-used-to-fund-bolsonaros-water-privatization-in-brazil?id=11726&lang=en

[13] https://www.morningstar.ca/ca/news/207728/cpps-commitment-to-canada-2050.aspx

[14] https://www.morningstar.ca/ca/news/207728/cpps-commitment-to-canada-2050.aspx

disclosures without broad engagement or representation from civil society. It is our expectation that core recommendations and principles for effective ESG and climate-related financial risk disclosure will continue to evolve in response to more diverse and broader stakeholder input and experience.

This is consistent with the principle of placing a premium on openness, disclosure and transparency that guided the Expert Panel in formulating its own recommendations, reflecting many crosscutting themes from stakeholder discussions. We understand that the federal government has accepted the Expert Panel on Sustainable Finance report in June 2019 that included the final recommendation 6.3, providing: "**Establish climate-related disclosure legislation for federally-regulated pension plans, and encourage provincial regulators to consider similar requirements**."

We accept that there is a growing consensus within the financial community around globally acceptable and applied standards incorporating a broad range of sustainability themes. We also accept that accounting and disclosure standards on climate change would be the initial priority given its primacy and urgency, but then followed by a broader range of ESG and sustainability areas.

Sustainability reporting creates greater material transparency and by ensuring investors are informed, helps markets function more efficiently. It also helps governments and social partners hold corporations and market organizations more to account for their societal impacts and facilitates the social dialogue critical to direct corporate contributions to national sustainable development efforts.[15] We also agree that setting reporting standards requirements that address the needs of investors is an appropriate starting point for such standard-setting activity as suggested by Chartered Professional Accountants CPA Canada[16] and note there is growing urgency for a single set of internationally recognized sustainability reporting standards.

Notably the International Foundation for Reporting Standards (IFRS) reports that feedback to their 2020 Consultation confirmed an urgent need for global sustainability reporting standards and support for the Foundation to play a role in their development.[17] While the Foundation will initially focus its efforts on climate-related reporting standards, it will continue working towards meeting the information needs of investors on other ESG matters. With the IFRS continuing their work on the establishment of an international sustainability reporting standards board, we anticipate a single set of high-quality sustainability reporting standards is imminent with the potential to bring significant benefits to organizations, investors, the global economy, and society at large when such disclosure based on the standard is required.

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[15] https://www.globalreporting.org/public-policy-partnerships/policies-and-regulation/

[16] https://www.cpacanada.ca/en/business-and-accounting-resources/financial-and-non-financial-reporting/international-financial-reporting-standards-ifrs/publications/cpa-canada-responds-ifrs-foundation-consultation

[17] https://www.ifrs.org/news-and-events/2021/03/trustees-announce-strategic-direction-based-on-feedback-to-sustainability-reporting-consultation/

ILO 2015 Guidelines for a Just Transition: Towards environmentally sustainable economies and societies for all

Decent work, poverty eradication and environmental sustainability are three of the defining challenges of the twenty-first century. Economies must be productive to meet the needs of the world's growing population. Societies must be inclusive, providing opportunities for decent work for all, reducing inequalities and effectively eliminating poverty

Securing the Just Transition

Unifor recognizes that Canada must set ambitious targets to implement the Paris Agreement on climate change. As we noted at the outset, our Union strongly supports climate change action to limit global warming and we are prepared to work with government and employers on the transitions and transformations that will be necessary.

Climate change action will require massive investments in green job technologies, particularly in energy and transportation as the largest sources of greenhouse gas emissions. Unifor urges government to prioritize energy infrastructure, transportation and automobile investments, and climate action programs such as energy retrofits to meet 2020 goals. The investments and programs put in place must be accompanied by supportive labour market assessments and research.

Transitions in Auto: The Move to BEV

In recent months, Unifor and Ford of Canada, GM Canada and Fiat Chrysler Automobiles have announced investment deals in Ontario assembly plants worth $6 billion collectively to produce fully electric vehicles and plug-in hybrids.

The direct participation and engagement of Unifor and the broader labour movement is critical to ensure that decent jobs are protected and appropriate training and skills development for the existing work force is relied on to drive the process. No doubt some workers and industries will be directly affected by carbon pricing and reduction in the use of fossil fuels. In such cases, a "just transition" strategy is essential and necessary to ensure that workers do not disproportionately or exclusively bear the burden of change. Unifor proposes the creation of dedicated Just Transition funding and stakeholder tables including labour representative at the federal level and in each province to address labour market, training and just transition measures in the design and program development of climate action plans.

Canada has actively embraced the concept of a just transition in relation to the Government of Canada's decision to phase out traditional coal-fired electricity by 2030. The impact on the production and use of thermal coal was addressed in a mandate to the Task Force on Just Transition for Canadian Coal Power Workers and Communities. The report, released on December 2018 and titled, A Just And Fair Transition For Canadian Coal Power Workers And Communities - identified possible solutions that could support a just and fair transition for Canadian coal power workers and their communities. Unifor was represented on the Task Force by Scott Doherty, Executive Assistant to the National President.

The Task Force identified and listed in the report seven principles to inform a just transition:

1. respect for workers, unions, communities, and families
2. worker participation at every stage of transition
3. transitioning to good jobs

Green Jobs: Towards Decent Work in a Sustainable, Low-Carbon World

*The transition [to a sustainable, low-carbon economy] will also involve businesses, workers, communities, and movements. It will produce new green jobs and the greening of some existing jobs. However, it will also result in job losses and jeopardized livelihoods in certain regions, communities, industries, and economic sectors. In particular, energy-intensive industries, extractive industries, and road transport could witness serious job declines.1025 Faced with this scenario, calls are emerging for a "fair and just transition," whereby those harmed by the changes are adequately assisted, and the new opportunities created are shared by specific groups of workers, social constituencies, and communities. For convenience, we will refer to this as a "**Just Transition**."*

…

*Thus, the effort to expedite a Just Transition to a green and sustainable economy will also involve a new set of approaches and policy options. The need to green our economy presents an opportunity to make the right policy decisions, **but there is nothing intrinsically fair or just about either the process of becoming green or the end result**—this must be pursued politically within the overall paradigm of sustainable development whereby the social dimension is fully and equitably integrated into the economic and environmental dimensions.*

4. sustainable and healthy communities
5. planning for the future, grounded in today's reality
6. nationally coherent, regionally driven, locally delivered actions
7. immediate yet durable support

These principles were informed by earlier international work including the International Labor Organization (ILO) publication, Guidelines for a just transition towards environmentally sustainable economies and societies for all, 2015[18] and expressed the international consensus concerning sustainable development, decent work and green jobs in advancing a policy framework for a just transition.

The ILO 2015 document captures a shared vision of the four pillars of the earlier ILO Decent Work Agenda – social dialogue, social protection, rights at work and employment – being all incorporated as "indispensable building blocks of sustainable development and … at the centre of policies for strong, sustainable and inclusive growth and development.[19] Consistent with this vision, a "just transition for all" towards an environmentally sustainable economy must be well managed and contribute to the goals of decent work for all, social inclusion and the eradication of poverty[20].

Task Force on Just Transition for Canadian Coal Power

*"When putting in place environmental policies that impact Canadian workers and communities, governments must take responsibility for these adverse impacts and collaborate with stakeholders to find ways to minimize them. During our mandate, we heard loud and clear that the Government of Canada needs to actively support those negatively affected by the transition to a low-carbon economy. **Just transition will be critical to building a broad consensus for taking action on climate change and reassuring Canadians that they will not be left behind**."*

The concept of just transition has a long lineage but gained particular prominence in recent decades in the global conversation on

[18] https://www.ilo.org/wcmsp5/groups/public/---ed_emp/---emp_ent/documents/publication/wcms_432859.pdf
[19] Ibid
[20] Ibid, at page 4

the connection between the three pillars of sustainable development - society, the environment, and the economy. Just transition therefore provides the support and connection among the various UN Sustainable Development Goals (SDGs) discussed earlier. From an earlier era where the labor movement was increasingly concerned that international climate negotiations such as Copenhagen 2009 were not addressing the social and employment impacts of climate policy, just transition is now included throughout UN processes and agreements, including the historic Paris Agreement adopted in December 2015.[21]

Indeed, one of first comprehensive studies on the emergence of a "green economy" and its impact on the world of work was the game-defining report Green Jobs: Towards Decent Work in a Sustainable, Low-Carbon World, published jointly in 2008 by the ILO, UNEP, the International Trade Union Confederation (ITUC) and the International Organisation of Employers (IOE)[22]. It was the first comprehensive study of the impact on the world of work of climate change and related mitigation efforts and released in advance of the Copenhagen Summit. It set out particularly in one section of the report a substantial chapter considering a "Fair and Just Transition"; addressing the human and social dimensions of the transition to a sustainable, low-carbon economy.

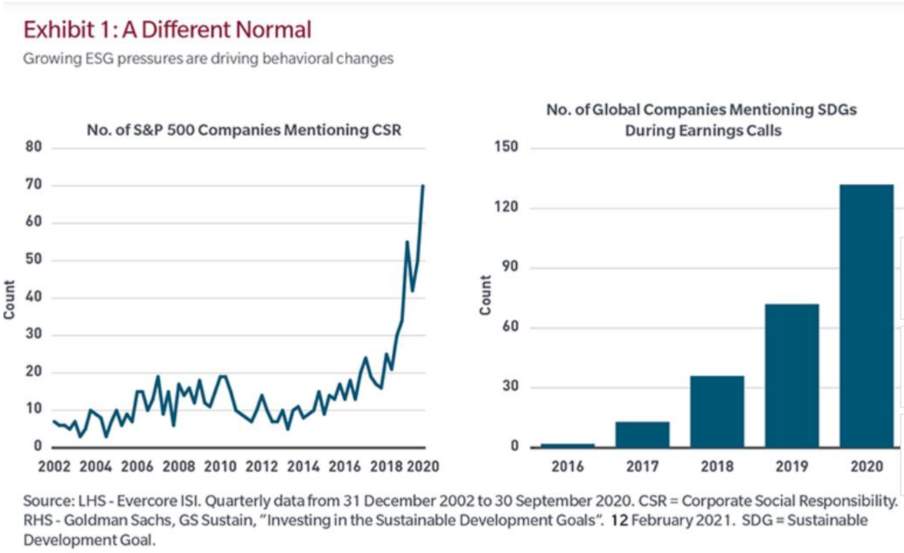
ITUC : New Social Contract - Demands for recovery and resilience

1. Creation of climate-friendly jobs with Just Transition. Job-creating industrial transformation to achieve net-zero carbon emissions, along with jobs in health, education and other quality public services.
2. Rights for all workers, regardless of their employment arrangements, to fulfill the promise of the ILO Centenary Declaration with its labour protection floor including rights, maximum working hours, living minimum wages and health and safety at work.
3. Universal social protection, with the establishment of a Social Protection Fund for the least wealthy countries.
4. Equality. Ending all discrimination, such as by race or gender, to ensure that all people can share in prosperity and that the appalling concentration of wealth in the hands of a few at the expense of the many is undone.
5. Inclusion. To combat the growing power of monopolies and oligarchs, ensure that developing countries can actually develop their economies and guarantee tax systems that provide the income vital for governments to meet the needs of people and the planet. An inclusive approach to tackling the COVID-19 pandemic is paramount, both in terms of economic support as well as universal access to testing, treatment and vaccines.

The ILO continues to advance in its work with focus on ensuring a just transition to environmental sustainability as a central issue of primacy for all areas of ILO activities, working in full alignment with the Decent Work Agenda in the fight against climate change. Indeed, more recently, the ILO has recognized that it can only pursue its mandate for social justice effectively if it integrates environmental sustainability into the Decent Work Agenda.[23]

The work of the ILO was stimulated in part by other international labour central federations and social partners such as the International Trade Union Confederation (ITUC)[24] that established a

[21] https://www.climateinvestmentfunds.org/sites/cif_enc/files/knowledge-documents/justtransition_final.pdf
[22] Green Jobs: Towards Decent Work in a Sustainable, Low-Carbon World, UNEP/ILO/IOE/ITUC, September 2008
[23] https://www.ilo.org/wcmsp5/groups/public/---ed_norm/---relconf/documents/meetingdocument/wcms_554315.pdf
[24] https://www.ituc-csi.org/IMG/pdf/call_for_dialogue_en.pdf



Source: LHS - Evercore ISI. Quarterly data from 31 December 2002 to 30 September 2020. CSR = Corporate Social Responsibility. RHS - Goldman Sachs, GS Sustain, "Investing in the Sustainable Development Goals". 12 February 2021. SDG = Sustainable Development Goal.

Just Transition Centre in 2016. The ITUC in 2020 also undertook key milestone work to reconcile the entire finance community in support of common action for climate and the UN Sustainable Development Goals in hosting the Finance in Common Summit.[25] At the subsequent World Economic Forum (WEF in 2021), Sharan Burrow as ITUC General Secretary, outlined five key demands to build recovery and resilience, putting people and the environment at the centre of the new social contract.

The evidence is clear – investors as well as corporations have noticed. There has been an observably dramatic year-over-year jump in the number of S&P 500 companies referencing corporate social responsibility (CSR) or the number of global companies that referred to any of the 17 UN SDGs in quarterly earnings calls in 2020 as an example.[26] In the graphic above the same authors illustrate the mounting investor interest in ESG as measured through corporate disclosure as part the growing recognition by corporate management of the need for more sustainable business practices, if not simply the appearance of such.

The United Nations Framework Convention on Climate Change (UNFCCC) has also developed the just transition framework[27], with publication of UNFCCC For the Just Transition of the Workforce, and the Creation of Decent Work and Quality Jobs Technical Paper. The paper provided a review of work on just transition leading to the 2015 Paris Agreement and specifically proposed principles to be included in guidelines for a just transition towards environmentally sustainable economies and societies for all. The document also provided a deep historical analysis of just transition, including the development of the concept amongst the bodies of the UN, ILO as well as other prominent reports, joint declarations and symposiums from relevant environmental organizations such as WWF, Oxfam or Green Peace.

More recently, the Canadian Institute for Climate Choices in their February 2021 report Canada's Net Zero Future: Finding our way in the global transition brought clarity to the climate challenges and transformative policy choices ahead for Canada recommending:

[25] https://financeincommon.org/
[26] https://www.mfs.com/en-ca/institutions-and-consultants/insights/capital-markets/sustainability-isnt-free.html
[27] https://unfccc.int/sites/default/files/resource/Just%20transition.pdf

"*Governments should work to ensure the path to net zero is fair and inclusive, providing targeted support so that the transition does not impose disproportionate costs or exacerbate existing barriers for different regions, sectors, workers, communities, and income groups*."[28]

We discussed earlier the incorporation of the principle of a just transition as an integral component within the text of the Paris Agreement. More recently the **Net Zero Asset Managers** initiative, a leading group of global asset managers have publicly committed to the goal of net zero greenhouse gas emissions by 2050 or sooner in line with global efforts to limit warming to 1.5°C have endorsed just transition.

The Net-Zero Asset Owner Alliance, launched in September 2019 at the United Nations Secretary-General's Climate Action Summit, was convened by the UN Environmental Programme Finance Initiative (UNEP FI) and the Principles for Responsible Investment (PRI) and supported by WWF and Global Optimism. The initiative includes over 70 initial signatory asset owners, representing over $32 trillion in assets, or over a third of assets in the asset management industry[29] have expressed their commitment and recognise:

"*an urgent need to accelerate the transition towards global net zero emissions and for asset managers to play our part to help deliver the goals of the Paris Agreement and ensure a **just transition**.*"

Notably, the Alliance have asked the International Energy Association (IEA) to incorporate actions addressing the risks of stranding high-carbon infrastructure and reserves as well as the implications for oil and gas developments – specifically including the need for managed phase-down of production and use, in parallel with actions to support a just transition[30].

Unifor is broadly supportive of the Pan-Canadian Framework on Clean Growth and Climate Change, as well as related supportive provincial measures to price carbon emissions. Unifor also believes that Canada's climate policy requires an explicit commitment to 'just transition'. The concept of just transition for our union includes multiple policy levers, including macroeconomic, industrial, sectoral and labour market policies in both the private and public sectors. These levers need to work together to promote economic sustainability, so that the needs of the present generation do not override the needs of future generations. The levers include decarbonisation, while maximizing green skills acquisition, good job creation and poverty reduction.[31]

Unifor members are employed in many activities that drive economic growth in our country, like extracting natural resources, industrial and manufacturing activities, and transporting goods or passengers that produce emissions. The transportation and industrial sectors accounted for about 23 and 37 percent respectively of Canada's emissions in 2014[32], the majority of the industrial sector emissions came from the oil and gas sector.

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[28] https://climatechoices.ca/wp-content/uploads/2021/02/Canadas-Net-Zero-Future_Summary_FINAL.pdf
[29] https://www.top1000funds.com/2021/04/managers-impact-reaches-tipping-point/
[30] https://www.unepfi.org/news/industries/investment/net-zero-asset-owner-alliance-statement-on-the-need-for-a-fully-developed-iea-1-5c-scenario/
[31] https://www.unifor.org/sites/default/files/documents/document/unifor_justtransition_backgrounder_en_web.pdf
[32] http://publications.gc.ca/collections/collection_2017/eccc/En4-294-2016-eng.pdf

To reduce carbon emissions, including a goal of net zero carbon by 2050 will require meaningful action be taken across all regions and sectors of the economy. In parallel, investments in clean technology solutions will facilitate economic growth, long-term job creation, and environmental responsibility and sustainability. A just transition is therefore a critical element to balance the otherwise differential economic and social impacts and to enable such climate change action by acknowledging and addressing both the varied economic, environmental, and social impacts and benefits.

Unifor's Road Map for a Fair, Inclusive and Resilient Economic Recovery as our 'Build Back Better'[33] program called on government in Canada to lead around green jobs and decarbonisation through a massive, historic investment in clean technology, green infrastructure and associated job creation. Included in that green transition we called for funding for emissions-free technology, building and retrofitting affordable housing to reduce environmental impact, investing in clean innovation in auto and other sectors in establishing a targeted just transition fund.

The Build Back Better program recognized that we needed to do more than simply returning to what was - it remains imperative that Canada redesign its fiscal and economic programs, its social infrastructure and public services to build an inclusive, fairer and more resilient economy. In the context of addressing the urgent demands to respond to the pandemic, we recognized that income inequality, an inadequate social safety net and climate change remain critical crises. These crises need to be addressed by a new social contract, as well as a climate action deal and are key to putting the economy on a sustainable path benefiting everyone as called for by the UN.[34]

This conception of a new social contract as core to a just transition was relied on in Climate + the Just Transition: The Business Case for Action,[35] 2018 by the non-profit Business for Social Responsibility (BSR). Their 2018 report sought to unify the discourse among practitioners across the three strands of the just transition: emissions reductions, resilience to climate risks, and the creation of decent work.

The BSR report located the rise of 'just transition' in the broader socio-political decision-making agenda, when the building blocks were laid in 2015, particularly in the landmark Paris Agreement on climate change. The Paris Agreement urged taking into account a just transition of the workforce and creation of decent work and quality jobs and reached simultaneously with the ILO guidelines for a just transition toward environmentally sustainable economies and societies for all with a focus on the "decent work agenda," consisting of social dialogue, social protection, rights at work, and employment.

Furthermore, the UN Sustainable Development Goals (SDGs) adopted in 2015, collectively represent the global agenda of just transition. Together, these global frameworks comprise

[33] https://buildbackbetter.unifor.org/

[34] https://www.un.org/press/en/2020/sgsm20448.doc.htm entitled: New Social Contract, Climate Action Deal Key for Putting Global Economy on Sustainable Path Benefiting Everyone, Secretary-General Says at Economists Round Table, November 24, 2020

[35] https://www.bsr.org/reports/BSR_Climate_Nexus_Just_Transition.pdf

carbon, climate-resilient, and inclusive economies. The BSR report[36], funded by the International Development Research Centre (IDRC), a crown corporation of the Government of Canada, sought to deepen private-sector understanding of how to address the social dimension of climate change.

This key point that transition needs to benefit everyone and is foundational to popular acceptance of the challenges ahead for Canadians in meeting our climate goals by adopting a broader ESG focus was also embraced by Sarra and Williams in their engagement with the Expert Panel:

> In this respect, Canada needs to develop timely and proactive strategies to address climate-related challenges and to devise a going-forward strategy. However, it is necessary to look beyond climate-related financial risk and consider the environmental, social and governance factors that may present important risks and opportunities in the transition to a sustainable Canadian economy. **Transition needs to benefit everyone and not disproportionately impact economically vulnerable Canadians or strand communities highly dependent on carbon intensive economic activity**.[37]

Fiduciary Responsibilities and Investing for Climate Change

We agree with the following description of fiduciary duty in the 21st century offered by Principles for Responsible Investment (PFI) and the United Nations Environment Programme Finance Initiative (UNEPFI):

> *Investors that fail to incorporate environmental, social and governance (ESG) issues are failing their fiduciary duties and are increasingly likely to be subject to legal challenge.*

This broader and more recent conception of fiduciary duty is grounded in the following three main reasons why fiduciary duties of loyalty and prudence require the incorporation of ESG issues: i) ESG incorporation is an investment norm; ii) ESG issues are financially material, and iii) policy and regulatory frameworks are changing to require ESG incorporation.[38]

In 2014, the PRI, UNEP FI and other UN partners have since 2014 been working to clarify fiduciary duties; having recognized the prior misrepresentation of fiduciary duties as the primary barrier to ESG incorporation. The resulting publication in September 2015 of Fiduciary Duty in the 21st Century in conjunction with the UN Global Compact has stood this issue on its head, concluding that "*failing to consider all long-term investment value drivers, including ESG issues, is a failure of fiduciary duty*".

We agree and believe that there is a clear role for institutional investors and asset owners to play in connecting their fiduciary duties and action on climate change with inclusive and sustainable development pathways. This role builds on the commitment in the Paris Agreement on climate change to support a just transition. While we advocate for ESG factors and sustainability considerations, we recognize that climate change is often by far the number one sustainability priority when investors are polled[39] as recently demonstrated in the top1000funds poll in March 2021 where 79 per cent of investors say climate is their number

[36] Wei, David. 2018. "Climate and the Just Transition: The Business Case for Action." Report. BSR, San Francisco

[37] https://commons.allard.ubc.ca/cgi/viewcontent.cgi?article=1480&context=fac_pubs

[38] https://www.fiduciaryduty21.org/

[39] https://www.top1000funds.com/2021/03/polling-story/

one ESG priority for the year. Increasingly, asset owners surveyed report incorporating ESG considerations into their investment decisions to align them with their organizations' values, for risk mitigation, reflecting stakeholders' interest and to fulfill their fiduciary duty.[40]

In partnership with PRI and the International Trade Union Confederation (ITUC), the authors of the publication, Climate change and the Just transition: A guide for investor action, outline five key motivations for investor action that align core fiduciary duties and interests with the simple equation: **climate action + social inclusion = just transition**.[41] Their work illustrates that contributing to just transition is a crucial way for investors to deliver positive social and environmental impacts in responding to climate change.

The five strategic motivations on which they rest the case for investor action include:

1. Broadening the understanding of systemic risks from climate change, by factoring in issues such as social exclusion and increasing inequality.
2. Reinvigorating fiduciary duty by better capturing the interrelated environmental and social drivers of long-term performance and by taking better account of beneficiary interests in sectors and regions affected by the transition.
3. Recognising material value drivers in terms of corporate practices in the workplace and the broader social licence to operate: business performance will be increasingly conditioned by the just transition.
4. Uncovering investment opportunities that combine climate and social goals such as inclusive growth, identified through the lens of the just transition.
5. Contributing to societal goals including existing responsibilities to respect international human rights and labour standards as well as new ways of realising the Sustainable Development Goals.[42]

In the view of the report, the consideration of just transition provides "connective tissue" that brings together the different SDGs, most notably the goals on climate change (SDG 13) and decent work (SDG 8), showing how the other SDGs support this process. With media reports[43] suggesting a green transition could displace the majority of Canada's energy workers by 2050, as up to 450,000 of Canada's current 600,000 direct and indirect oil and gas jobs may become casualties of falling demand for fossil fuel in the transition to net zero, it is absolutely critical that we work towards a just and sustainable transition.

An illustrative example is provided by the European Institutions for Occupational Retirement Provision Directive (IORP II) that requires pension schemes to recognise their duty of care to members and beneficiaries; to inform them of their ESG due diligence policies and activities, and to seek their ESG preferences as a relevant benchmark for measures to bolster disclosure and member engagement[44]. It is our submission that all federally regulated pension plans should be required to engage directly both with their board of trustees and/or plan advisory committee and more critically, with plan members and beneficiaries. The intent would be to

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[40] https://www.pionline.com/esg/asset-managers-increasingly-evaluated-through-esg-lens-cerulli
[41] https://www.unpri.org/download?ac=9452
[42] Ibid
[43] https://www.theglobeandmail.com/business/article-green-transition-could-displace-majority-of-energy-workers/
[44] https://www.responsible-investor.com/articles/what-is-the-role-for-pension-schemes-in-eu-sustainable-finance-regulation

foster on-going dialogue around responses to climate change in the context of sustainability and a just transition as part of the effort on developing a broad consensual approach to addressing climate-related risks.

We further support OSFI and other provincial regulators collaborating with the pension community in developing non-proprietary criteria, benchmarks and scores to assist plan administrators and asset managers in discerning true sustainability and responsible investing and avoiding simply 'green washing' the investment process.

We also recommend that OSFI fully embrace the Call to Action[45] issued by the Network of Central Banks and Supervisors for Greening the Financial System (NGFS) in 2019:

- integrate climate-related risks into financial stability monitoring and micro-supervision
- integrate sustainability factors into it's own-portfolio management
- bridge the data gaps
- build awareness and intellectual capacity and encourage technical assistance and knowledge sharing
- achieve robust and internationally consistent climate and environment-related disclosure
- support the on-going development of a taxonomy of economic activities

A critical component of this capacity building is OSFI commitment and support to developing a Canadian consensus on a sustainable finance taxonomy.[46] Such a national transition taxonomy would be a classification instrument to help investment owners and managers determine which activities qualify as contributing to ESG or sustainable outcomes by developing a universal language among companies and investors, aligned with comparable global taxonomies. This emphasis on a transition taxonomy opens to low-carbon investment opportunities and supports existing 'brown' industries in raising the capital required to finance their transition to a zero-carbon business model.

Another focus for OSFI in concert with other market regulators is prevention of 'greenwashing', as a cynical corporate strategy to persuade governments and regulators to allow corporations to police themselves through voluntary codes of conduct, win-win partnerships and best practices learning models, rather than through binding legislation and regulation. We applaud Tariq Fancy, former CIO for sustainable investing at BlackRock Inc., the world's biggest asset manager overseeing $8.7 trillion, who recently publicly castigated the industry's duplicity:

> "In truth, sustainable investing boils down to little more than marketing hype, PR spin and disingenuous promises from the investment community. Existing mutual funds are cynically rebranded as 'green' — with no discernible change to the fund itself or its underlying strategies — simply for the sake of appearances and marketing purposes."[47]

This issue parallels earlier concerns surrounding the development of environmental marketing guidelines and greater regulation and effective standards to ensure 'truth in advertising'; to

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[45] A Call for Action, Climate change as a source of financial risk, Network of Central Banks and Supervisors for Greening the Financial System (NGFS), April 2019

[46] A Canadian Transition Pathway, An Urgently Needed Toolset to Finance Canada's Pathway to a Low-Carbon Economy Pathway, Global Risk Institute in Financial Services, November 2020

[47] https://www.bloombergquint.com/gadfly/former-blackrock-executive-tariq-fancy-blows-the-greenwashing-whistle

curb the misleading if not false information claimed by product manufacturers and retailers that their products or services were 'green friendly' or environmentally sound.

The US Securities and Exchange Commission (SEC) recently upheld requests by BlackRock and Amazon to block shareholder resolutions calling for details on their fulfillment of the lofty stated commitments of the Business Roundtable's Statement (BRT) on the Purpose of a Corporation, which their CEOs signed in 2019. Proponents of the resolution suggested the SEC had "conflated intent with action" in its ruling on the world's largest asset manager.

> In our opinion, BlackRock has expressed its intent to implement stakeholder capitalism and has made some adjustments but has yet to present a coherent plan to shareholders or substantially implement one.[48]

The SEC has also recently advised that investors risk being misled by investment managers who claim to invest according to ESG principles but do not adhere to them. The SEC released a Risk Alert titled "The Division of Examinations' Review of ESG Investing", based on findings issued by its Division of Examinations[49] earlier this year and announced an enhanced focus on climate-related risks and ESG claims as part of its updated priorities for 2021.

Many years earlier, the Competition Bureau Canada, in collaboration with the Canadian Standards Association (CSA) made the case for mandatory standards in their Environmental Claims: A Guide for Industry and Advertisers guidelines to the business community around ensuring that green marketing does not mislead:

> The value of environmental claims rests on the assurance that the information provided is credible, objective, and easily identifiable and understood by consumers. Standards play an important role in providing guidance to ensure responsible claims in industry and advertising. Standards for environmental claims benefit consumers, industry, and advertisers by providing a level playing field and consistency in terms and application.[50]

This is no less the case with financial investment products and service that are increasingly being promoted to both institutional and individual investors.

A recent Artificial Intelligence (AI) analysis of corporate voluntary climate risk disclosure (based largely on the TCFD disclosure recommendations) came to the sobering conclusion that the firms' TCFD support was mostly simply lip service or "cheap talk". In effect, firms cherry-picked and reported primarily non-material climate risk information – their analysis concluding that the only way out of this dilemma is to turn voluntary reporting into mandated regulatory disclosures[51].

Absent mandatory standards and prescribed content guidelines; including requiring a report on action, and not simply statements of ambition, intent or virtue signalling to investors we will

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[48] https://www.responsible-investor.com/articles/blackrock-and-amazon-get-green-light-to-block-corporate-purpose-proposals
[49] https://www.responsible-investor.com/articles/sec-flags-potentially-misleading-claims-by-esg-fund-managers
[50] https://www.competitionbureau.gc.ca/eic/site/cb-bc.nsf/vwapj/guide-for-industry-and-advertisers-en.pdf/$FILE/guide-for-industry-and-advertisers-en.pdf
[51] Bingler, Julia Anna and Kraus, Mathias and Leippold, Markus, Cheap Talk and Cherry-Picking: What ClimateBert has to say on Corporate Climate Risk Disclosures (March 2, 2021). Available at http://dx.doi.org/10.2139/ssrn.3796152

make little real progress. We require a rigorous third party certification process when investment managers and corporations have significant room to merely provide glossy statements of intent, to define their own terms and then self-identify as operating responsible funds, leaving investors to pour over hundreds of pages of filings to glean whether the fund has actually developed, much less acted upon a plan to actually address climate change or ESG contents.[52]

The largest investor engagement initiative on climate change - Climate Action 100+, released its first-ever benchmark in March, 2021 evaluating the corporate ambition and action of the world's largest greenhouse gas emitters and other companies with significant opportunity to drive the net zero transition. The Climate Action 100+ Net-Zero Company Benchmark offers the first detailed, comparative assessments of individual focus company performance against the initiative's three high-level commitment goals: reducing greenhouse gas emissions, improving governance, and strengthening climate-related financial disclosures.[53]

None of those corporations that have pledged their Net Zero ambitions, had actually provided any real strategy for getting there. Another recent study of greenwashing among hedge fund management companies that endorsed the PRI[54] found that the observed underperformance of hedge fund signatories can be traced to signatories that simply greenwash, with hedge funds that greenwash underperformed both genuinely green and non-green funds.

New Zealand's Sustainable Finance Forum (SFF) final report, Roadmap for Action also called for the explicit inclusion of environmental and social considerations in the concept of fiduciary duty, the introduction of a stewardship code and enhanced regulatory action to guard against greenwashing among its many recommendations.[55] In the end, it is hardly surprising that the elements of disclosure, fiduciary duty and stewardship echo throughout this report. The report aligns with numerous recent Sustainable Finance fora held in Canada (2019), the European Union (2018), the United Kingdom (2018) and Australia (2020).

The Canadian Expert Panel on Sustainable Finance final report, similarly recommended greater definition around investment products and robust accreditation standards. Most notably, the Expert Panel recognized a 'legacy' perception that ESG factors, such as climate change, were non-financial and therefore outside of, or in opposition to, the remit of fiduciary duties.[56] In the result, recent landmark legal judgments and a proliferation of public studies and statements debunking this 'legacy' belief resulted in the Expert Panel concluding:

> Considering this, the Canadian Government has a clear opportunity and imperative to clarify that fiduciary duty today does not preclude the consideration of relevant climate change factors [*or other material ESG factors, which fell outside the Panel's remit*]. In fact, evolving

[52] https://financialpost.com/investing/ria-considering-certification-process-for-responsible-investing-funds-in-canada-to-combat-greenwashing

[53] https://www.climateaction100.org/news/climate-action-100-issues-its-first-ever-net-zero-company-benchmark-of-the-worlds-largest-corporate-emitters/

[54] https://corpgov.law.harvard.edu/2020/11/17/greenwashing/

[55] https://www.responsible-investor.com/articles/new-zealand-s-sustainable-finance-taskforce-calls-for-fiduciary-duty-changes-stewardship-code-and-green-standards-to-tackle-greenwashing

[56] http://publications.gc.ca/collections/collection_2019/eccc/En4-350-2-2019-eng.pdf

> sustainability principles and international best practice increasingly require such considerations.[57]

In particular, and noting the consideration by the Expert Panel of the opinions expressed by Sarra and Williams, Time to Act, Fiduciary Duty and Sustainable Finance – Clarifying the Legal Concept (2019) in their consideration of fiduciary duty in the pension context, we would encourage OSFI to take note of the following:

> We also recommend amending of the Canada Pension Benefits Standards Act to add the obligation to consider ESG factors when investing the assets of a pension fund in a manner that a reasonable and prudent person would. The pension administrator should provide information on ESG factors to members, former members, survivors or former spouses for their consideration. The Pension Benefits Standards Regulation should be amended to require that the Statement of Investment Policies and Procedures must contain information on how ESG factors are being incorporated.[58]

We continue to call on the federal Government to specifically address recommendation 6.1 of the Expert Panel's report, calling for "*a public statement from the Minister of Finance articulating that the consideration of climate factors is firmly within the remit of fiduciary duty*", although consideration of ESG factors was specifically not within the Expert Panel's remit.

Summary

To conclude, we urge OSFI to broaden the characterization of climate-related risks towards an explicit ESG framework focusing on sustainability and the principles of responsible investing. Climate-related risks, and particularly the transition risks discussed, warrant a holistic focus and approach; the mitigation and adaptation to climate change is complex and ultimately systemic and existential and 'building resilience' requires a sustainability focus and attention to just transition principles. It follows that improving the definition, identification and measurement of climate-related risks and the impact of these risks must proceed from a broader holistic consideration of ESG factors.

In this same context we appreciate that a small federally regulated pension plan has less resources to dedicate towards explicitly incorporating climate-related risk into their SIP&P. We would urge OSFI to consider the approach of the Expert Panel and expressly require not less than active consideration of sustainability and ESG factors in all pension plan SIP&Ps while recognizing the reasonable constraints on smaller pension plans (whether measured by assets or membership) to immediately engage in scenario analysis and stress testing, particularly when asset management is largely out-sourced.

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[57] Ibid

[58] https://commons.allard.ubc.ca/cgi/viewcontent.cgi?article=1480&context=fac_pubs