Intelligence MEMOS

From: Janis Sarra

To: Canada's Boards of Directors

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Re: **DIRECTORS NEED HELP ON CLIMATE CHANGE**

Climate change considerations are looming large in corporate boardrooms as directors grapple with emerging reporting rules.

The latest development came with Mark Carney's announcement at the COP26 summit in Glasgow of the Global Finance Alliance for Net Zero (GFANZ), whose signatories, including major Canadian banks, have committed to achieving net-zero carbon emissions across their assets by 2050. That means clients seeking investments or loans from banks, insurance companies, pension funds, and asset managers will need to ensure their identification, management and reporting of climate-related risks and opportunities are well developed.

Most of Canada's big banks have begun setting their own net-zero goals earlier. For them, as for all corporations, effective climate governance means adopting strategic plans to manage the risks and opportunities, setting clear targets for emissions reductions and reporting on progress, embedding climate-related information in their financial statements, and being accountable for meeting promises.

As it is, most companies in Canada adhere to International Financial Report Standards (IFRS), under which directors and officers need to account for material climate-related risks across 11 accounting standards. In November 2021, IFRS announced creation of a new International Sustainability Accounting Standards Board, which will amalgamate all of the leading sustainability standards into global standards. Top of the list will be promulgating new global accounting standards for climate risk and the new board already have a prototype standard.

Recently, the Canadian Securities Administrators proposed mandatory climate-related financial disclosures for all publicly held companies based on the Taskforce on Climate-related Financial Disclosures (TCFD) framework.

Now, Canada has an opportunity to catch up to many of the G20 countries that are well ahead on regulatory change to accelerate transition.

My C.D. Howe Institute E-brief earlier this year focused on why Canada's economic recovery post-pandemic must take shape alongside its commitment to achieve net-zero carbon emissions, observing that directors risk failing in their duties to the corporation if they do not identify and manage climate risks.

Climate change is materially affecting 72 of 77 industry subsectors and transition risks from climate change continue to grow.

Globally, there have been 2,000 climate-related lawsuits against governments, companies and their directors and officers for breach of fiduciary obligation, failure to disclose material financial risks to investors or tort claims as a result of losses. Canadian directors must act proactively before these lawsuits grow in Canada.

The duties of corporate fiduciaries in Canada are very clear. Directors and officers must act in the best interests of the company and exercise the care, diligence and skill that a reasonably prudent person would exercise in comparable circumstances. The Supreme Court of Canada has consistently ruled for 20 years that best interests of the company include considering its sustainability and whether the company is a good corporate citizen, and in their role, directors can take account of the interests of multiple stakeholders and the environment.

Directors therefore need to consider the risks, a determine what is material to the business, and have a strategy to minimize such risks and capture any opportunities presented by new technologies and energy-saving innovations. Balancing increasingly complex time horizons for strategies, risks and opportunities, and different stakeholder concerns is a key responsibility of directors and officers.

Meanwhile, the will to address climate change is strengthening at the political level – all major parties featured the issue in their most recent platforms – and the new Parliament therefore has a strong mandate to move ambitiously on climate change at every level within Ottawa's constitutional authority.

While debate remains on the specific policies and their design given economic realities, such as the pace of energy transition, Parliament has a critically important opportunity to pull together business, finance and civil society organizations to move Canada to net-zero carbon emissions.

At the regulatory and policy level, however, Canada has not kept pace. The UK, New Zealand and European Union are implementing mandatory disclosure and management of climate risks for publicly traded companies, large private companies and financial firms.

The failure of federal and provincial regulators to create a level playing field for businesses to transition and to give clear signals to capital markets remains a barrier to Canada capturing new economic opportunities. The Royal Bank of Canada recently reported that $2 trillion is needed to support Canada's transition to net zero and that capital is not in short supply, but the lack of consistent and reliable policies impede Canada's ability to attract private capital to finance the transition and seriously scale up investible projects.

Now is the time to implement policies responsive to business, finance and civil society, transitioning the economy in a way that is just and equitable and shifts Canada's current trajectory on global warming and its devastating impacts on communities and the economy.

Canada's corporate boardrooms have a crucial role to play.

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