Intelligence MEMOS

From: Glen Hodgson

To: Canada's finance ministers and financial industry

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Re: **Sustainable Finance: From the Margins to the Mainstream**

Canada has been lagging international developments in sustainable finance – still regarding green finance as a marginal activity as other nations pile in.

To address the issue, the federal government last year set up an expert panel on sustainable finance and its final report arrived two weeks ago. It offers a sweeping and detailed set of recommendations about how to handle the economy's coming sustainability transformation.

The report emphasizes that the role of financial markets in driving the transition to a low-carbon economy has yet to be fully leveraged.

"Finance is not going to solve climate change, but it has a critical role to play in supporting the real economy through the transition," it states.

There are 15 headline recommendations, plus many detailed sub-recommendations that bring the total to well over 50. They are a combination of aspirational vision, building blocks, and a deep dive into specific aspects of financing and regulation, likely reflecting the expertise and interests of the panel members and supporting staff.

As a first principle, the report assumes that pools of capital, institutions and expertise in the private sector –and outside core government – must be mobilized and will ultimately deliver the bulk of sustainable transition financing and risk management. The private sector is encouraged to adopt leading practices. For example, Recommendation 10 promotes sustainable investment as the desired 'business as usual' approach within Canada's asset management community.

The report states that government's central role is to create the right conditions for sustainable financing in terms of regulation, building capacity, and nudging investors and financiers toward the right behaviours. Notably, Recommendation 8 proposes embedding climate-related risk into monitoring, regulation and supervision of Canada's financial system. This would mean an enhanced oversight role in climate finance and risk for the Office of the Superintendent of Financial Institutions, the federal financial regulator – consistent with the Bank of Canada's recent commitment to evaluate climate risk to the financial system and Canadian economy.

There is also a series of detailed recommendations to develop and expand specific financial market segments and sustainable finance instruments, such as for fixed- income products. Recommendations are also made relating to expected users of sustainable finance, notably providers of green technology and services, and for transition in oil and gas and other conventional industries with high GHG emissions.

The report assigns follow-up tasks to multiple federal departments and agencies but also to professional bodies, institutions in the investment community and other levels of government.

With an apparent lack of interest in green finance in Washington, D.C., there is a clear opportunity for nimble Canadian investment institutions and firms to position themselves as North American market leaders in this space. Canada has the technical expertise and innovative capacity to secure a competitive advantage and build regional or even global leadership in market segments for sustainable finance.

Overall, the report's ambitions are business-oriented as well as green – to position Canada and its investment institutions as active and leading players in the global and regional market for green finance. Canada can aspire to being a leader and decision-maker in the emerging global market for sustainable financial products, services and investments, and not simply be a market follower.

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