

IIAC LETTER

Sustainable Finance

Maintaining a Growth Trajectory for Sustainable Finance During Uncertain Times

INTRODUCTION

Sustainable finance in the most universally accepted definition can be thought of as the alignment of a country's financial systems and services to foster that nation's lasting environmental sustainability and economic prosperity. Globally, there has been a push to better align finance with sustainable development goals and requirements. Canada and other countries around the world are developing sustainable finance plans that create pathways and set structures in place to assist the financial sector to support the move towards a more sustainable economy.

IIAC firms with deep expertise in capital raising and an unparalleled understanding of Canada's investor base can provide leadership to help the country move towards being a low carbon jurisdiction and help avoid the cataclysmic climate change risks associated with inaction.

The policy, governance and investment changes that support growth in sustainable finance require substantial investment and commitment of all commercial sectors, governments, and investors. In particular, commercial enterprises and governments need to commit to broader environmental social and governance (ESG) standards and lay the groundwork for Canada to implement a blueprint for a long-term sustainable economy.

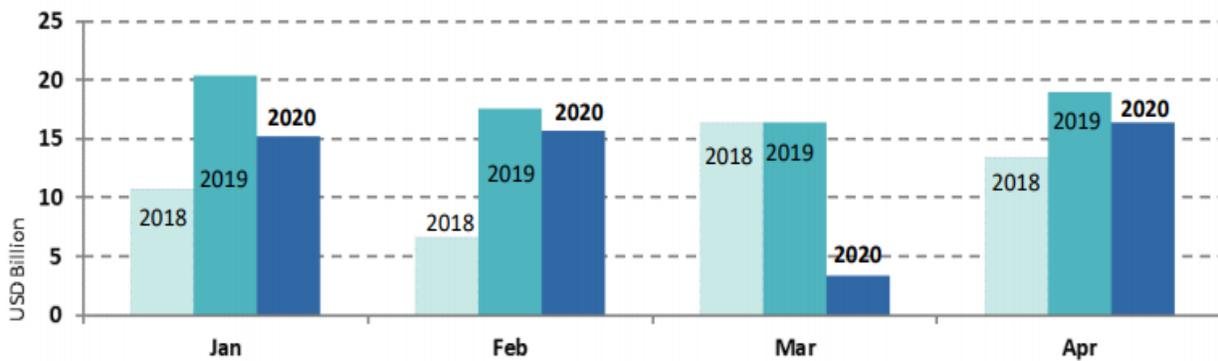
There is undeniable evidence that climate change is a problem of global proportions with increased risks of flooding, extreme weather, drought, forest fires and other calamities and Canada is in fact warming at twice the rate of the worldwide average.

CURRENT STATE OF THE MARKET

In many ways sustainable finance continues to be top of mind and front and centre in private and public sector business plans. One way this can be evidenced is by examining domestic and international green bond issuance, aggregate sustainable assets under management and the continued development of a diverse group of products and services that focus on supporting a growing sustainable finance marketplace.

The momentum for sustainable finance has continued in recent years, but the Covid-19 pandemic has resulted in some pause in activity as the chart below on green bond issuance indicates.

April 2020 Issuance Bounces Back



Source: Climate Bonds Initiative

Canadian federal and provincial governments have a leadership role to play in guiding and promoting the growth of sustainable finance and climate related policies. One example is the federal governments setting of targets for reducing carbon emissions set out as part of the Paris Agreement. The contentious nature and complexity of adoption of supportive climate policies can be demonstrated by examining the regional resistance to the recently proposed carbon pricing plan. Three provincial governments immediately challenged the plan through the courts questioning the authority of the federal government to implement the Greenhouse Gas Pollution Pricing Act.

CHALLENGES

To support continued positive momentum in sustainable finance initiatives there needs to be a clear, cooperative approach between the public and private sectors in Canada. The opportunities and benefits of sustainable finance needs to be articulated and the hurdles identified and overcome to encourage unified engagement. Currently, many still view sustainable finance as an additional cost as opposed to an immense opportunity with the added benefit of addressing serious medium- and long-term climate change risks.

The move towards a lower carbon, climate-friendly economy will require on going adaptability to allow for change and necessitate substantial amounts of capital investment and risk management expertise spread across many different sectors. These sectors include renewable energy, clean building technology, transportation, water, and food production. Projects from these sectors will need to be attractive investments to a diverse group of investors with varied investment goals and expectations, including financial institutions, and institutional investors including pension funds, retail investors and foundations.

Institutional investors have shown an ability to understand climate-smart and environment friendly and embrace the belief that these investments are an opportunity to promote sustainable growth and long-term value creation. So much so that many institutional investors have been incorporating sustainability doctrines into their underlying investment and ownership strategies. More recently, retail investors have had the opportunity to participate in these investments though exchange traded funds (ETF) offerings.

In April 2018, Canada's Minister of Environment and Climate and Minister of Finance formed an Expert Panel on Sustainable Finance. Through 15 recommendations, the panel put forward a long-term vision and called for focused policies that can be grouped into 3 pillars; 1) the opportunity; 2) foundations for market scale; and 3) financial products and markets for sustainable growth.

The expert panel issued a call for a comprehensive and immense Canadian national industrial strategy plan to be applied to investment and finance activity in this country stating that "Climate change opportunity and risk management need to become business-as-usual in financial services, and embedded in everyday business decisions, products and services." The final report, which was released in June 2019, had the overarching recommendation that sustainable finance should be considered in all investment and finance decisions, clearly a challenging effort and difficult goal to attain.

While the development of national sustainable finance policies and goals that take into consideration unique Canadian issues is a worthy undertaking, impediments need to be considered and overcome.

Among these obstacles is the absence of globally aligned sustainable finance standards. This includes the need to define an agreed upon taxonomy, labels, and standards for green financial products, which will, along with other factors, provide direction to the rapidly growing green bond market. Canada has a vested interest in being proactive and involved in the standards development process because Canada's is a somewhat unique resource rich economy.

RECOMMENDATIONS AND OPPORTUNITIES

Specific Canadian needs have to be considered to develop the proper financial tools and constructs to forge a domestic path through this inevitable world-wide transition. To this end the Canadian Standards Association Group (CSA Group) is developing transition finance taxonomy in Canada. This work was initiated based on the recommendations put forward in the aforementioned Government of Canada expert panel. The new program will focus on 3 major tasks:

1. The development of a "Transition Finance Taxonomy" as a National Standard of Canada for Transition Finance.
2. Canada to play an active and leadership role in the creation of a global transition finance taxonomy that is relevant for Canada.
3. Canada's participation on ISO Technical Committee (TC) 322 Sustainable Finance.¹

Successful sustainable finance spending allocates funds to its most productive use and directs capital to sustainable projects and organizations. Funds directed through financial intermediaries play an integral role in supporting the transition to a cleaner economy by raising public awareness and accelerating investment that address environmental issues.

¹ CSA Groups Technical Committee for Transition and Sustainable Finance

FINAL THOUGHTS

To conclude, traditional business as usual policies are no longer acceptable, and leaders and investors of the Canadian in international financial and public institutions are instituting and demanding change. In the United States, Larry Fink Chairman and Chief Executive Officer of Blackrock the world's largest asset manager with nearly \$7 trillion in investments, in a recent letter that urges investors "to reassess core assumptions about modern finance" and states that "research from a wide range of organizations - including the UN's Intergovernmental Panel on Climate Change, the BlackRock Investment Institute, and many others, including new studies from McKinsey on the socioeconomic implications of physical climate risk - is deepening our understanding of how climate risk will impact both our physical world and the global system that finances economic growth".²

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² <https://www.blackrock.com/corporate/investor-relations/blackrock-client-letter>