Date: January 9, 2024

Senator Pamela Wallin, Chair
The Standing Senate Committee on Banking, Commerce and the Economy
The Senate of Canada Building
Ottawa ON K1A 0A4
Canada

Dear Senator Wallin,

On behalf of Peter Routledge, Superintendent, and Stephane Tardif, Managing Director, Climate Risk Hub, thank you for providing the Office of the Superintendent of Financial Institutions (OSFI) with the opportunity to appear as witnesses and speak to issues related to the Committee's study of Bill S-243, *An Act to enact* the Climate-Aligned Finance Act *and to make related amendments to other Acts*—specifically about OSFI's role as it relates to climate risk management in Canada's financial sector.

During the December 6, 2023, meeting, the Committee requested that OSFI follow-up in writing on several issues of interest. Three questions were identified following a review of the interim transcript (the Blues) and in consultation with the Committee Clerk. They are addressed herein.

From [OSFI's] analysis of the institutions that you're supervising and making sure that they report their risk, in the last three to five years, have you seen a shift from them from investing in the climate change emitters' industry, and so on, to clean technology developers, installation, and so on? Have you seen a shift?

OSFI is currently in the process of expanding our ability to quantify climate risk, however existing data may suggest that larger financial institutions have yet to materially shift their lending patterns towards low carbon energy projects. Recent, publicly available, studies have shown that at the end of 2021 the average bank lent roughly $0.37 to $0.74 on low carbon energy projects for every $1.00 allocated towards projects in the fossil fuels sector.

Can you tell us about any other countries or jurisdictions that require the kind of alignment that this legislation is asking for?

In addition to the details provided by Stephane Tardif during the Committee meeting, we can confirm that the European Union (EU) has updated the European Central Bank's (ECB) mandate to monitor how lenders plan to transition to a net-zero carbon economy over the next three decades. This reform also puts the Bank in charge of supervising bank-owned providers of crypto asset services.

The ECB will now be more explicitly empowered to intervene in cases where it finds that the way a bank manages climate or environmental risks is deficient, potentially creating a threat to financial stability. While the formal text of the agreement between the European Parliament and the Council of the EU is yet to be confirmed, the provisional text indicates that the Bank should act when "there are risks arising from transition trends toward" the climate targets within the EU.

Finally, regarding materiality of banking system assets, Superintendent Routledge was asked **"what would be the benchmark of materiality?"**

As a principles-based prudential regulator, OSFI's views regarding materiality depend on the characteristics of the federally regulated financial institution (FRFI) in question. The characteristics of the FRFIs that OSFI regulates vary greatly and are highly subjective. In the absence of an internationally agreed-upon benchmark, there is no one-size fits all approach to providing a singular definitive quantitative threshold for materiality.

Yours sincerely,

Noftle, Tracie

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