BUSINESS COUNCIL OF ALBERTA

Senate Bill S-243 Briefing Note

Overview

Senate Bill S-243, also known as the *Enacting Climate Commitments Act*, is a private members' bill introduced by Senator Rosa Galvez in March 2022.

Bill S-243 aims to require banks and federal financial institutions to align their lending decisions with Canada's climate commitments (i.e. the Paris Agreement), tracked through new reporting requirements. These new reporting requirements are proposed to supersede those required by the Office of the Superintendent of Financial Institutions (OSFI), the body responsible for regulating the financial services sector in Canada.

At its core, S-243 is about cutting off lending to the fossil fuel sector by installing high risk-weighting to fossil fuel projects as well as projects that support fossil fuel transportation, including pipelines large and small.

Assessment

The Business Council of Alberta is concerned with the proposed Bill S-243 for several reasons:

- Bill S-243 creates an unnecessary and additional layer of legislation on top of the banking sector which is already regulated by OSFI. OSFI has been very active in advancing climate related risk and disclosure, including: through their Guideline B-15 on Climate Risk Management; through their creation of a platform for dialogue in their Climate Risk Forum; and through the initiation of a Climate Risk Returns and Standardized Climate Scenario Exercise.

  In the words of Peter Routledge, OSFI Superintendent, when testifying to the Senate Standing Committee on Banking, Commerce and the Economy: "OSFI's mandate and the objects that flow from our mandate give us everything we need to regulate the financial institutions so they manage climate risk responsibly. I do not seek anything further from legislation to do that. We do not need anything further."

- The proposed bill will create a layer of legislation, which restricts lending abilities from the banking sector, rooted in the Government of Canada's climate commitments, policy, and targets rather than existing risk management practices, OSFI regulation, and international standards. Tying lending protocols to government policy while performance standards exist within the current regulatory approach is counterproductive.

- Bill S-243 proposes the creation of risk weighting that would, in the view of the Canadian Banking Association, cut off any lending to the Canadian oil and gas sector. Much testimony has been given that legislation which assigns risk weightings and rates to the Canadian banking sector is not the role of legislation or parliament.

- The proposed bill requires that activities of Canada's financial institutions prioritize "climate commitments" above all other considerations. This would be to the detriment of investments which could address, for example, affordability or health care in Canada, which we suggest would be a misguided prioritization to the detriment of the well-being of Canadians.

- The Canadian oil and gas sector is Canada's most productive sector according to Statistics Canada and contributes significantly to Canadian prosperity. Limiting capital availability to Canada's most productive sector could have the unintended consequences of lowering government revenues and making Canada's affordability crisis even worse.

- An incredible amount of investment will be required to make the transition to a cleaner economy. The Institute for Sustainable Finance estimated in their 2020 report that Canada will need to invest an estimated $128 billion to reach our 2030 targets, with the oil and gas sector needing to invest over $26 billion to reduce its carbon emissions. Many testimonials to the Senate Standing Committee on Banking, Commerce and the Economy have confirmed that Bill S-243 would starve the economy of the investment needed to decarbonize, thereby failing to achieve the Bill's own policy objective. Instead, government should be working to create the right policy and investment environment required to enable the oil and gas sector to make the necessary decarbonization investments.

- The broad reach of the bill inappropriately affects future governance of Canada's financial institutions by restricting directorships from those who own shares, have voting rights, or hold a position in a company that is not aligned with the Bill's definition of climate commitments. It is again a further overreach of legislation to restrict who may sit on the boards of Canadian corporations.

Given the existing regulatory environment ensuring proper climate risk and disclosures by financial institutions, we ask for the Senate Committee on Banking, Commerce and the Economy to **dismiss Bill S-243 in its entirely, ensuring that it does not proceed to the House of Commons** for debate.