Canadian Institute of Actuaries
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Office of the Superintendent of Financial Institutions
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Subject: Draft Guideline B-15: Climate Risk Management

The Canadian Institute of Actuaries (CIA) appreciates the opportunity to provide the Office of the Superintendent of Financial Institutions (OSFI) with feedback on its May 2022 draft *Guideline B-15: Climate Risk Management*.

The CIA believes that actuaries can play a useful and important role in recognizing the risks from climate change, notably in the areas of physical risks, transition risks, and liability risks. Furthermore, actuaries would be well suited to the role of senior climate risk officer given actuaries' backgrounds on quantifying the financial risks of contingent events.

The CIA also believes that actuaries can work well with other professionals on the identification, quantification, and mitigation of climate-related risks. There may be an opportunity for the CIA to provide guidance in the form of educational notes or practice resource documents to support the implementation of the guideline.

The following feedback provided to OSFI draws on the September 2019 CIA public statement, *Time to Act: Facing the Risks of a Changing Climate*, which asked for "All levels of government to require all entities to implement financial disclosure of climate-related risks and opportunities under the Task Force on Climate-Related Financial Disclosures (TCFD) by 2021 and for corporate entities to adopt the TCFD framework voluntarily as soon as possible." In addition, the feedback is also consistent with the CIA's support of the OSFI–Bank of Canada joint climate scenario analysis pilot (released January 2022).

In general, the CIA is supportive of the three expected outcomes outlined in section A.3 of the draft guideline. We also support OSFI's intent to have federally regulated financial institutions (FRFI) disclose information in accordance with TCFD, the greenhouse gas (GHG) protocol and the *Exposure Draft IFRS S2 on Climate-related Disclosures* of the International Sustainability Standards Board (ISSB). Since the ISSB standards are still draft, we would encourage OSFI to ensure consistency with the final standards once they are approved.

The CIA would like to make the following recommendations:

Recommendation 1: Harmonize the climate-related disclosure requirements in Canada and globally.

The CIA recommends that OSFI coordinate with the Canadian Accounting Standards Board, the Canadian Sustainability Standards Board (which is planned to be operational by April

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2023), the Canadian Securities Association, and the Canadian Association of Pension Supervisory Authorities to ensure a harmonized approach to Canadian climate-related disclosure requirements. We would also recommend that the Canadian standards be harmonized with the final global standards (and in particular with the final ISSB standards currently under development) and would encourage OSFI to actively participate in the ISSB discussions. Having inconsistent global and Canadian disclosure requirements would be problematic for FRFIs. Finally, if a phased approach is adopted, it would be desirable to have a similar set of phases across regulators.

Recommendation 2: The guideline should emphasize principles-based guidance over prescriptive guidance.

The CIA believes that there are elements within the current draft guideline that are overly prescriptive (particularly in Chapter 1). We recommend that OSFI move to a more principles-based approach. FRFIs are at different stages in their climate risk journey and have different exposures to climate risk. A principles-based approach would allow each FRFI to manage climate risk in relation to their own profile, which would be consistent with the risk-based approach outline in section A.1 of the draft guideline.

Recommendation 3: The guideline should recognize the diverse nature of FRFIs.

The CIA believes that it will be a challenge to address the wide-ranging climate risk management requirements of all Canadian FRFIs in one guidance document. While it is desirable to have harmonized guidance for all FRFIs, we recommend that OSFI consider developing separate application climate risk management guidelines or considerations for insurance entities, deposit-taking institutions, and pension plans.

Recommendation 4: The guideline should recognize the lack of accurate and comprehensive data available to meet the proposed B-15 requirements in the expected timelines.

A number of data gaps were identified in the OSFI–Bank of Canada scenario analysis pilot, and these data gaps will persist for the foreseeable future as not all companies who issue securities will be required to provide disclosures aligned with the TCFD framework or the ISSB disclosure standards. The significant data challenges will impact the ability to meet the requirements in both chapter 1 and chapter 2 of the draft guideline.

Recommendation 5: We recommend delaying the implementation timeline.

As was outlined in our 2019 Time to Act public statement regarding comprehensive disclosure, we believe that there needs to be consideration for a “smooth” pattern of implementation. Our statement reads:

“We support mandatory financial disclosure of climate-related risks and opportunities by 2021, as detailed in the International Institute for Sustainable Development’s three-year plan. We recommend a smooth and structured implementation ensuring accurate, timely, and standardized disclosure and appropriate governance mechanisms, strategies, risk management, metrics, and targets.”

While a timeline was not specified by OSFI in the B-15 draft, we recommend that the risk management and governance requirements be implemented in 2025 at the earliest. We also recommend delaying the implementation of the disclosure requirements in Annexes 2-1, 2-2, and 2-3 by two years. Although in our Time to Act statement we urged for the implementation of disclosure requirements by 2021, there are some compelling reasons to delay. The proposed delays are due in large part to the ongoing resource requirement with industry for IFRS 17 implementation. IFRS 17 implementation will continue to require significant resources through early 2024. Hopefully, some of the data challenges noted in our Recommendation 4 will also be addressed in the interim. A longer timeline to implement the requirements may also allow companies time to educate shareholders and other key stakeholders on the current climate risk data and models and their limitations.

We have expanded on our five recommendations above by listing in the Appendix more detailed comments and supporting examples.

The CIA appreciates the opportunity to provide feedback on these issues, and we would welcome further discussion with you throughout this process.

If you have any questions, please contact Chris Fievoli, FCIA, Actuary, Communications and Public Affairs, at 613-236-8196 ext. 119 or chris.fievoli@cia-ica.ca.

Sincerely,

Hélène Pouliot, FCIA
President, Canadian Institute of Actuaries

The Canadian Institute of Actuaries (CIA) is the qualifying and governing body of the actuarial profession in Canada. We develop and uphold rigorous standards, share our risk management expertise, and advance actuarial science to improve lives in Canada and around the world. Our more than 6,000 members apply their knowledge of math, statistics, data analytics, and business in providing services and advice of the highest quality to help Canadian people and organizations face the future with confidence.

Appendix

Detailed comments from the Canadian Institute of Actuaries

1. Chapter 1 (Governance and Risk Management Expectations)

Move to a more principles-based approach
The CIA believes that Chapter 1 is overly prescriptive as currently worded, and that OSFI should move to a more principles-based approach. This recognizes that FRFIs have different exposures to climate risk and are at different stages in their climate risk journey. We appreciate that a risk-based perspective is mentioned in section A.1 of the draft guideline, but many of the principles and expectations in this chapter seem to apply to all climate-related risks rather than to material climate-related risks.

Here is an example of prescriptiveness in the draft guideline:

Chapter 1 Expectation 14: When undertaking climate scenario analyses, the FRFI should consider a range of plausible and relevant scenarios, over various time horizons (i.e., short-, medium- and long-term), when climate-related risks can materialize and drive the FRFI's risks.

Materiality is listed as a consideration in *Guideline E-18: Stress Testing*. OSFI should take a similar approach in *Guideline B-15: Climate Risk Management* and clearly state that materiality should be factored in climate scenario analysis. We do not recommend that OSFI prescribe a scenario analysis process or time horizon. Also, we recommend that OSFI allow the FRFI to select the most appropriate scenario analysis approach for their needs, whether that would be to consider a range of plausible scenarios over multiple time horizons or another reasonable approach.

Similarly, the existing ORSA and ICAAP guidelines state that scenarios should be based on the company's own view of risk and would therefore already capture potential material climate-related risks. Prescribing that companies incorporate a climate risk scenario for these reports contradicts the "own risk" principle.

Undue prescriptive guidance could be viewed as a compliance exercise and could impact the desired strategic spirit of climate scenario analysis.

Potential for a CIA document to supplement the OSFI guideline
We suggest that the CIA could play a role in guiding practices and could potentially develop a practice resource document or educational note to assist practitioners in not only meeting the requirements but also in adding value.

Recognize limited climate-related data availability and modelling capabilities
The CIA is concerned about the current limited availability of the required data for the risk management requirements in Chapter 1. There is currently limited data and lack of standardized methods to monitor or measure impacts on climate change. This is an evolving area.

Separate guidance for banking and insurance industries
The CIA also recommends that OSFI consider addressing climate risk management separately for the banking and insurance industries either through distinct guidelines or through additional chapters/sections/considerations within B-15. The intersect should also be covered (e.g., an insurance subsidiary of a bank). This approach will allow for a more practical and meaningful guideline given the different intra-industry climate risk profile.

An example of guidance that is not applicable to all FRFIs is provided below.

Chapter 1 Principle 17: The FRFI should incorporate the impact of climate-related drivers on its liquidity risk profile and integrate a range of FRFI-specific and market-wide severe, yet plausible, climate-related stress events when assessing the adequacy of its liquidity deposit. For example, the FRFI should consider, among other things, the impact of increased drawdowns of deposit balances and credit/liquidity lines for counterparties sensitive to climate-related risks, volatility in insurance claims experience due to climate change, etc.

Liquidity is not a key consideration in insurers' stress testing processes because it is not a key risk for those financial institutions. We recommend that OSFI remove this requirement for an insurance company. This could be addressed by developing an insurance-specific climate-related risk guideline.

Ensure consistency with existing OSFI guidelines
The draft guideline should ensure consistency with *Guideline E-18: Stress Testing* and *Guideline E-19: Own Risk and Solvency Assessment*.

Implementation of Chapter 1 requirements starting in 2025 at the earliest
While an implementation timeline is not specified for chapter 1, we recommend that the risk management and governance requirements be implemented in 2025 at the earliest. This proposal is due in large part to the ongoing resource requirement for IFRS 17 implementation that will continue through early 2024.

Finally, it should be recognized that governance and risk management practices will continue to evolve and become more comprehensive as data and modelling capabilities develop over time.

2. Chapter 2 (Climate-Related Financial Disclosures) and the Annexes

Recommend harmonizing disclosure requirements
While this is an evolving area, we are concerned with potential inconsistencies with other regulators.

For example, there is no reference to the EU double materiality concept whereby companies have to report information not only on how non-financial issues affect the company ("outside-in" perspective), but also regarding the impact of the company itself on society and the environment ("inside-out" perspective).

There are also many climate-related disclosure standards being developed. While these all have a common foundation of the TCFD framework, there is a potential for diverging requirements. The CIA supports convergence to a global standard. With this in mind, the CIA recommends that OSFI coordinates with the Canadian Accounting Standards Board, the Canadian Sustainability Standards Board (which is planned to be operational by April 2023), the Canadian Securities Association and the Canadian Association of Pension Supervisory Authorities to ensure a harmonized approach to Canadian climate-related disclosure requirements.

The CIA also recommends that the Canadian standards be harmonized with international standards (and in particular with the final ISSB standards currently under development). We would encourage OSFI to actively participate in the ISSB discussions. Having inconsistent global and Canadian disclosure requirements would be problematic for FRFIs.

Finally, if a phased approach is adopted, it should be the same phases across regulators.

Recognize limited climate-related data availability
The CIA is concerned about the current limited availability of the required data for the disclosure requirements. This is an evolving area. Significant data required may not be readily available in time to meet the proposed disclosure timelines and may be onerous to obtain.

Recognize companies are at different stages of climate disclosure
Since companies are at different stages in their climate risk journey, we recommend that OSFI leverage what companies are already disclosing publicly in the short-term.

Recommend delaying the implementation timeline by at least two years
We recommend delaying the implementation of the disclosure requirements outlined in the Annexes by two years due to the ongoing resource requirement of IFRS 17 implementation. IFRS 17 implementation will continue to require significant resources through early 2024. Hopefully, some of the data challenges will also be addressed in the interim.