April 16, 2021

Office of the Superintendent of Financial Institutions (OSFI)
Kent Square 255 Albert Street, 12th Floor
Ottawa, ON K1A 0H2
Via email: Climate-Climat@osfi-bsif.gc.ca

Re: ESG Consultation

To Whom It May Concern:

ACPM (The Association of Canadian Pension Management) is a national, non-profit organization acting as the informed voice of plan sponsors, administrators and their service providers in advocating for improvement to the Canadian retirement income system. Our membership represents over 400 companies and retirement income plans that cover millions of Canadian plan members.

ACPM appreciates the opportunity to provide our feedback on the questions posed in OSFI's discussion paper, *Navigating Uncertainty in Climate Change: Promoting Preparedness and Resilience to Climate-Related Risks.* We note that much of the analysis in the paper and many of the questions do not relate to pension plans. ***As such, we have only provided responses to the questions posed in the paper that relate to federally registered pension plans (FRPPs)***.

We urge OSFI to be mindful of unintended consequences or impact on FRPPs (especially smaller pension plans with more limited resources) of any guidance or legislation relating to climate change risks primarily targeted at financial institutions. Financial institutions in Canada are subject to an entirely different regulatory regime than FRPPs and also have significant resources (as compared to private sector pension plans) to implement complex management strategies relating to climate change risks.

1. What are your views on the characterization of climate-related risks as drivers of other risks? How do climate-related risks affect FRFIs and FRPPs? Do you have other views on the characterization of climate-related risks set out in this paper?

We agree with the risks as described on Figure 6 of the paper. Considering climate-related risks in the setting of overall asset allocation and risk appetite for FRPPs may materially impact return outcomes over a long-term horizon.

2. What steps can FRFIs and FRPPs take to improve their definition, identification and measurement of climate-related risks and the impact of these risks?

FRPPs can apply the recommendations made by the Sustainability Accounting Standards Board (SASB) and the Task Force on Climate-Related Financial Disclosures (TCFD) and leverage the tools provided by these organizations to help improve their definition, identification, and measurement of climate-related risks.

8. What are the key considerations for incorporating climate-related risks into the FRPP's Statement of Investment Policies and Procedures (SIP&P)?

FRPP plan administrators have fiduciary duties at common law and the *Pension Benefits Standards Act, 1985* ("PBSA"). To discharge its fiduciary duties in investment decision making, the PBSA requires a plan administrator choose investments "in accordance with the regulations and in a manner that a reasonable and prudent person would apply in respect of a portfolio of investments of a pension fund." The prudent investor rule requires a pension plan administrator to select the investment that is in the best financial interests of the members. In our view, ESG factors like climate change can play a part in this regard in assessing the economic value and future performance of an investment over the short, medium and long term and should be taken into account together with other appropriate investment assessment criteria.

The following are key considerations for a plan administrator evaluating how to incorporate such risks into the FRPP's SIP&P:

- Where an ESG factor is directly relevant to the financial performance (risk and return) of an investment, it is a relevant and proper investment consideration and should be included in the SIP&P with respect to both investment assessment, selection and monitoring.

- Any conclusion as to whether an investment or divestment is prudent and in the best financial interest of the beneficiaries should be rationally based on appropriate due diligence.

- As FRPPs are typically expected to continue for an extended period, the best financial interest of the beneficiaries should be assessed over the long term. The short term return of competing possible investments is not determinative.

- When weighing different investments (as opposed to setting an investment policy with absolute bars), the integration of ESG factors can be relied upon when deciding between otherwise equally financially prudent investments. Despite some American case-law that ESG factors can be relied upon where the negative financial impact is only *de minimis*, that principle is not supported by UK case-law and should not be assumed to be applicable in Canada without legislative changes to support it. It is worth noting that we are not aware of any Canadian case-law directly on point.

- We believe it is appropriate to incorporate a plan administrator's approach to risks, including climate-related risks, in the SIP&P, but as part of the investment selection process, it is not appropriate to overly emphasize climate risks as compared to other risks that would affect the financial performance of an investment. All material risk and assessment factors are to be taken into account as part of the FRPP investment decision-making process.

9. For FRPPs where the administrator directly invests in assets, are scenario analysis and stress testing used to assess the pension plan's exposure to climate-related risks? If so, how useful are they? What are some other measurement tools that FRPP administrators should consider?

In theory, scenario analysis is an appropriate risk management technique for climate-related risks because of the uncertainty of future outcomes. However, in practice it is currently difficult to extract meaningful results from scenario analysis. Off-the-shelf tools are often inappropriate for the unique characteristics of each pension plan and building in-house scenarios is a complex undertaking that is not feasible for most plan administrators. In fact, the TCFD's 2020 Status Report states that the percentage of companies disclosing scenario analysis was significantly lower than that of any other recommended disclosure due to the challenges of disclosing this information.

10. For FRPPs where individual investments are delegated to an investment manager, should consideration be given to climate-related management when plan administrators select investment managers? If so, what are the key climate-related criteria for selecting investment managers? If not, why not?

We are already seeing FRPPs undertaking the following actions in this regard:

- Evaluating external managers' sustainability risk policies;
- Reviewing whether the risks that have been identified as relevant are sufficiently addressed and reported on by external investment managers; and
- Engaging with external investment managers to stimulate improved policies, processes, and reporting on relevant sustainability risks, including, where relevant, the introduction of a time-bound plan to address them.

We believe such actions are prudent and should be considered for all sustainability risks, including climate change risks.

As for specific key climate-related criteria for selecting investment managers, individual plan administrators establish this criteria based on the characteristics and circumstances of their individual FRPPs. Therefore, we do not have, nor recommend, a prescriptive list of criteria in this regard.

13. Given OSFI's role as the prudential regulator and supervisor of FRPPs, what other work do you think OSFI should consider in relation to climate-related risks?

It would be very helpful to FRPPs if there were standard disclosure requirements that all external investment managers were required to comply with related to climate-related risks and other ESG matters. The availability of easily accessible, standard climate-related measures for all investment funds would allow FRPPs to have appropriate information they can use to better integrate climate-related considerations into their decision-making.

16. What factors should OSFI consider in designing its guidance, supervision process and reporting requirements to promote FRPPs preparedness and resilience to climate-related risks?

As noted in response to Question 8 above, FRPPs have the fiduciary responsibility to act in the best financial interests of their plan beneficiaries. Fiduciary duty requires a plan administrator to consider all factors relevant to financial performance and the financial risk of a plan investment. Any guidance, process and reporting requirements OSFI develops regarding climate-related risks should be built around this fundamental principle.

With respect to FRPP reporting requirements, in our view, they should take the following factors into account:

- reporting should be clear, transparent, and consistent;
- reporting should not be too onerous, especially for small pension plans; and
- there should be clear reasoning for the level of detail and format (e.g. standalone report, funding valuation report, SIP&P, member statements) of reporting.

Detailed reporting on climate risks should start with the investment managers and reporting for pension plans be implemented later after asset managers are already reporting on these risks. FRPPs will need sufficient time to incorporate any required disclosures.

To help promote the preparedness and resilience of FRPPs to climate-related risks, efforts should be deployed to develop a reliable and consistent national climate data hub, stemming from curated data generated by various institutions using an established, consistent methodology and terminology.

Thank you for the opportunity to provide our feedback on the questions posed in OSFI’s discussion paper. Please let us know if we can be of further assistance to you in this endeavor.

Sincerely,

Ric Marrero
Chief Executive Officer
ACPM

cc: Tamara DeMos, Managing Director, Private Pension Plans Division
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