

Bill S-243, Climate-Aligned Finance Act (CAFA)

Introduction and Objectives of the Bill

Canada needs a coherent legislative framework for the financial sector and federally regulated businesses to achieve climate commitments. Most financial reform proposals in recent years have centered on disclosure schemes that aim to identify and quantify the financial risks of climate change for businesses, in the hope that market participants and capital flows evolve accordingly. Unfortunately, this has not happened, and industrial accidents, environmental emergencies and financial crises have shown the limits of self-regulation by enterprises seeking profit maximization.

Canada's financial regulations and commercial incentives must not only require climate risk disclosure but also alignment with Canada's climate commitments in the context of the ambition of the Paris Agreement and attaining net-zero emissions by 2050 at the latest.

The Climate-Aligned Finance Act (CAFA), tabled by Senator Rosa Galvez, was developed with dozens of international and national experts to ensure capital flows in Canada's financial system are fully aligned with international climate commitments now and in the future. The Act aims to close gaps in climate policy and governance of the financial system, while strengthening clean growth in Canada and upholding Indigenous rights.

Key features on the bill

The bill seeks to align the Canadian economy with achieving Canada's national and international climate commitments by legislating the whole field of federal jurisdiction over financial and commercial regulation in a way that respects Indigenous rights and ensures an equitable transition towards a net-zero emissions economy, without extending the powers and duties of the federal institution. It will do so specifically by:

- 1) Establishing a superseding duty for directors, officers, and administrators to align reporting entities such as the Bank of Canada and the Office of the Superintendent of Financial Institutions (OSFI) with climate commitments;
- 2) Aligning purposes of certain Crown corporations and federally regulated organizations with climate commitments. The list of organizations includes the Bank of Canada, OSFI, the Public Sector Pension Investment Board, and most Crown corporations;
- 3) Obliging the development of action plans, targets, and progress reports on meeting climate commitments through annual reporting requirements and increasing transparency by making them public and freely accessible on the institution's website;

- 4) Ensuring climate expertise on certain boards of directors and avoiding conflicts of interest;
- 5) Making capital adequacy requirements proportional to microprudential and macroprudential climate risks generated by financial institutions;
- 6) Requiring a government action plan to align financial products with climate commitments;
- 7) Mandating timely public review processes on implementation progress to ensure iterative learning.

In conclusion, Climate-Aligned Finance Act (CAFA) will provide a coherent legislative framework for the financial sector and federally regulated businesses to achieve climate commitments in the context of the ambition of the Paris Agreement and attaining net-zero emissions (carbon neutral) by 2050 at the latest. The bill will close the gap in the governance of the financial system, while strengthening clean growth in Canada and upholding Indigenous rights.