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Chair: Mr. Peter Fonseca

Standing Committee on Finance

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● (1100)

[*English*]

The Chair (Mr. Peter Fonseca (Mississauga East—Cooksville, Lib.)): I call this meeting to order.

Welcome to meeting number 84 of the House of Commons Standing Committee on Finance.

Pursuant to Standing Order 108(2) and the motion adopted by the committee on Tuesday, March 7, 2023, the committee is meeting to discuss the current state of play on green finance, green investment, transition finance and transparency, standards and taxonomy.

Today's meeting is taking place in a hybrid format pursuant to the House order of June 23, 2022. Members are attending in person in the room and remotely using the Zoom application.

I'd like to make a few comments for the benefit of the witnesses and members.

Please wait until I recognize you by name before speaking. To those participating by video conference, click on the microphone icon to activate your mike, and please mute yourself when you are not speaking. For interpretation on Zoom, you have the choice, at the bottom of your screen, of floor, English or French audio. Those in the room can use the earpiece and select the desired channel.

I remind you that all comments should be addressed through the chair. To members in the room, if you wish to speak, please raise your hand. To members on Zoom, please use the “raise hand” function. The clerk and I will manage the speaking order as best we can, and we appreciate your patience and understanding in this regard.

I'd now like to welcome our witnesses for the first hour. They are from the Office of the Superintendent of Financial Institutions. We have with us the superintendent of OSFI, Peter Routledge.

Welcome.

Joining Mr. Routledge is the managing director of climate risks, Stephane Tardif.

Welcome, Mr. Tardif.

You now have an opportunity for some opening remarks before—

Go ahead, Mr. Ste-Marie.

[*Translation*]

Mr. Gabriel Ste-Marie (Joliette, BQ): I would like quickly rise on the two points of order.

[*English*]

The Chair: Wait one second. We'll have to suspend over some technical issues. I guess we were not getting sound over Zoom.

A voice: It's back on now, Mr. Chair.

The Chair: Well, that was quick. We have rectified that situation.

Voices: Oh, oh!

The Chair: Go ahead, please, Mr. Ste-Marie.

[*Translation*]

Mr. Gabriel Ste-Marie: Thank you, Mr. Chair.

I would like to say hello to my colleagues who are here today.

I am rising on two points of order.

The first one is as follows: when we heard the representatives from the Department of Finance a few weeks ago, the committee asked questions and requested information on the amounts invested in green energy in each sector, broken down by province. We are still waiting for the answers. I would like to remind the representatives from the Department and the minister that this request has been made.

The second point is that a little while ago, we received from the Department of Finance a report on an in-depth study on the economic impact of the Select Luxury Items Tax Act when it came into force. If everyone is in agreement, I would like to make that report public if it hasn't already been done, and allow access to people who are not members of the committee. Thank you.

● (1105)

[*English*]

The Chair: We're going to go to the clerk, but the question is this: Would you like it on the website, Mr. Ste-Marie?

[*Translation*]

Mr. Gabriel Ste-Marie: Yes, if everyone agrees.

[*English*]

The Chair: Is everybody okay with that?

Some hon. members: Agreed.

The Chair: We have agreement.

[*Translation*]

Mr. Gabriel Ste-Marie: Thank you.

[*English*]

The Chair: *Merci*, Mr. Ste-Marie.

Now, we'll go back to our witnesses and their opening remarks.

Thank you.

[*Translation*]

Mr. Peter Routledge (Superintendent, Office of the Superintendent of Financial Institutions): Thank you. Good morning, Mr. Chair, ladies and gentlemen, members of the committee.

Thank you for the opportunity to speak about the Office of the Superintendent of Financial Institutions and its approach to climate change. I am joined by my friend and colleague Stéphane Tardif, who is the managing director of OSFI's climate risk hub.

Climate change is a financial system risk because it will alter the cashflows generated by some financial assets and businesses. For example, stronger and more frequent national disasters are changing the economic fundamentals in some insurance segments.

[*English*]

OSFI's purpose is to contribute to public confidence in the Canadian financial system.

To fulfill our purpose, we must ensure that Canadian financial institutions manage the risks that could impact their safety and soundness. Among these risks are the physical and transition risks associated with climate change.

We have made tremendous progress towards this objective over the last 18 months. We created a new climate risk hub, which Mr. Tardif leads, and we've grown his team to over 30 people from about two just over a year ago. All of them are dedicated to leading OSFI's response to climate-related risks.

On March 7 of this year, we released our first-ever guideline, B-15, on climate risk management, to accelerate Canadian financial institutions' readiness to manage climate-related risks.

When developing this guideline, we met with representatives across all sectors, including members of the public in all regions, to better understand the impact of our regulations on their businesses. We received over 4,300 submissions during the most extensive consultative process in OSFI's history.

Our consultations produced a balanced, sensible regulatory approach that will help Canada's financial system navigate and adapt to the uncertainties and risks presented by climate change. Our supervision of climate risk management is not one-size-fits-all. It enables the institutions we regulate to adapt their approaches to climate risk management in a manner that supports both competitive and prudential aspirations.

That said, we acknowledge that we have a bias towards early action in adapting to climate change, and one might ask why.

Our climate scenario analysis indicates that a financial system that starts climate change adaptation early and progresses more gradually on this path is a sounder financial system. Thus, our approach stems from the underlying purpose assigned to OSFI by Parliament.

Thank you very much, and we're happy to take your questions.

The Chair: Thank you, Mr. Routledge and Mr. Tardif. It's good to see you guys here in person.

We're going to start with the members' questions. In this first round, we have the Conservatives up first.

Mr. Chambers, you have six minutes, please.

Mr. Adam Chambers (Simcoe North, CPC): Thank you, Mr. Chair.

Welcome to the committee. It's great to be in person. It's much preferable to over Zoom.

Before I get to my questions—and I do have some and I respect your time—I just want to read into the record a motion that was served to the committee. This is not for debate but just to put it on the record:

> That the Committee call on the government to extend the tax filing deadlines for the 2022 tax year to 25 business days after the labour dispute is resolved between PSAC and the Treasury Board Secretariat.

As I said, I don't intend to have that motion debated today, Mr. Chair. I just wanted to put that out there, and I hope that we have a speedy resolution to the labour dispute.

Mr. Routledge, I appreciate your coming and joining us. It's an important study proposed by my Liberal colleague.

I'm curious about B-15's guidelines and the cost of compliance that a financial institution might bear. Have you thought about or measured what the costs of compliance are expected to be for certain financial institutions?

● (1110)

Mr. Peter Routledge: I'll answer the second part of your question first. Measuring the exact cost is not something we've asked them to do. The institutions we regulate are more than happy to come to us to tell us what the burden is.

To go more deeply into that question, I'd like to reference one key aspect of our system. We have some very large financial institutions that have economies of scale with regard to disclosure, and then we have some very small ones. When we designed this guideline, we designed it with that in mind, so to help them manage their increased costs, we've given smaller institutions an extra year to come into compliance with disclosure.

With regard to the larger institutions, they're already.... If you look at large insurers or banks, their quarterly reports are 200 pages or more, so adding additional disclosure around climate change, given that there is already substantial scale built into disclosure, we don't think will be material to them.

Mr. Adam Chambers: Aren't there requirements for climate scenario analyses and other work that the institution has to do in order to produce the disclosure?

Mr. Peter Routledge: Yes.

Over time, there will be a rising burden around scenario analysis. The diligence and risk intelligence that will come out of that will produce lower credit costs, we believe, over time, which will more than pay for the additional costs.

Even if we didn't oblige them in the way we have in B-15, which I acknowledge, whether it was for their board of directors, for bondholders of the fixed-income instruments they issue or for their equity holders, they'd be doing this analysis. It's sound, sensible, prudential management to understand and try to quantify climate risk and the impact it might have on your book of business.

Mr. Adam Chambers: If they would be doing it anyway, why do they need the regulator to dictate what needs to be disclosed?

Mr. Peter Routledge: That's a good question. There are a variety of reasons for that.

The first one, as I said in my opening statement, is that we have a bias towards earlier action. Our system will be sounder if we oblige the institutions we regulate to move earlier and sooner on this and to begin to do this maybe a bit before other institutions.

The other reason is that Canadian financial institutions operate in a global context. They raise funds from outside Canada in order to invest within Canada. Their investors outside Canada expect this type of discipline from those institutions. They also look to the regulations OSFI puts in place, and they're measuring how responsible the financial system in Canada is when they do that.

Mr. Adam Chambers: Thank you.

I'm very curious about principle 5 and how “OSFI may develop this section into a separate chapter” with respect to capital and liquidity requirements. Are you going to increase the capital requirements for companies that lend to oil and gas?

Mr. Peter Routledge: To answer that question, I'd like to spend just a minute or two—

Mr. Adam Chambers: I have only about a minute left, so you have 30 seconds.

Mr. Peter Routledge: Okay. I'll try to be very brief.

Capital risk weightings are very technical. They're built bottom-up from historic credit analysis. That's—

Mr. Adam Chambers: Will a financial institution be forced to hold more capital against a loan that an oil and gas company takes?

Mr. Peter Routledge: We're not changing that approach.

Mr. Adam Chambers: Okay.

Mr. Peter Routledge: We will always be empirically driven in our credit risk rates.

The problem is that credit risk analysis is driven by historical data. The unique feature of climate risk is that we're talking about events that haven't happened yet, and we're trying to make predictions about the future.

There's every intent and determination on our part to make sure we maintain our empirical, prudential, rigorous standards. Any change in risk ratings should flow out of disciplined, bottom-up credit risk management in the way that credit risk ratings—

Mr. Adam Chambers: That would be happening anyway. If a risk rating changes by a third party.... That's already happening. I fail to understand why OSFI should be getting involved in climate risk analysis and disclosure when the private sector is already demanding it. Frankly, the discussion around climate risk policies belongs in that chamber over there called the House of Commons and not necessarily with a financial regulator.

It seems to me to be a little broadening of the scope of OSFI's mandate, which we never debated, frankly.

● (1115)

The Chair: Thank you. Your time is up. Now we're moving to the Liberals.

Mr. Baker, you have six minutes.

Mr. Yvan Baker (Etobicoke Centre, Lib.): Thank you for being here.

I have a number of questions, so I'll ask you to be as concise as you can, noting, of course, the complexity of some of the issues that I'm going to ask you about.

First off, building on the discussion you were just having with my colleague from the Conservative Party, what is OSFI's mandate? For the sake of Canadians and constituents who are watching, who are these folks at OSFI, and what do they do?

Mr. Peter Routledge: There are two parts to that.

Our purpose is to contribute to public confidence in the Canadian financial system. That's a broad financial stability instruction. How do we do that? We do that by supervising financial institutions. When we identify risks through that supervision, we oblige boards of directors to take prompt actions to address those risks. We put in place principles-based guidelines to manage those risks. We watch broader systemic trends and make sure that the industry is prepared to deal with them as early as possible.

Mr. Yvan Baker: What would happen if we didn't have OSFI and didn't make sure that we were managing those risks? From the perspective of a constituent, what could happen?

Mr. Peter Routledge: Generally speaking, financial systems that don't have strong prudential regulations tend to be more volatile, and that volatility comes at a cost to the economy. More unstable banks that tend to fail more will mean that your economy will be weaker. We've built up this system of regulations in order to keep our economy strong.

Mr. Yvan Baker: In a worst-case scenario, for example, you might see a bank default if it wasn't properly managing its risk.

Mr. Peter Routledge: Yes, it's happened in Canada before. It hasn't happened for a long time, but it has happened.

Mr. Yvan Baker: We've seen it in the United States recently with—

Mr. Peter Routledge: We saw it last month.

Mr. Yvan Baker: We saw it last month.

People could go the bank to ask for their deposits, and the bank could say, “We can't live up to our commitments. We can't get you your money back,” for example. Also, mortgage rates could be affected, or the housing market could crash, like we saw in 2007-08 during the financial.... Things like that could happen. Is that fair?

Mr. Peter Routledge: Yes, I live that every day.

Mr. Yvan Baker: Your role in regulating risk in our financial system is super important. It's not something that just affects the banks. It affects Canadians every single day.

Mr. Peter Routledge: Yes.

Mr. Yvan Baker: Before we get into climate risk, can you talk about the kinds of risks that OSFI ensures that the banks are properly managing?

Mr. Peter Routledge: Traditionally, bank and insurance company regulators look at credit risk, which is the risk that you make a loan and people don't pay you back; investment risk, which is the risk that you make an investment and you lose money; and liquidity risk, which is the risk that someone asks you for what they're owed and you can't pay them back. That's the core thing.

What we've learned, particularly since the global financial crisis, is that risk environments are growing more complex, and risks that don't appear to be financial can actually have very strong financial consequences. Corporate governance would be a risk area. Cyber-risk would be a risk area. Reliance on a third party for critical services would be a risk area.

Climate has emerged as a risk that has the potential to have real financial impacts on financial institutions. Were we to set climate aside and not oblige our institutions to deal with that risk, in our judgment, we wouldn't be fulfilling our purpose and mandate.

Mr. Yvan Baker: In terms of the climate risk, why...? You've talked about these other risks you're ensuring that the financial institutions and the banks are managing. You've talked about what the implications are if banks don't manage these risks.

You recently added an assessment of climate risk as a part of that. What are the implications of not managing climate risk?

Mr. Peter Routledge: There are a variety of implications.

To the point that was made earlier, some institutions would still get at this and would manage their balance sheets in a pretty responsible way. My experience is that if you don't have rigorous regulations, there are always institutions that are less inclined to do that. I'll use the word “shirk”.

The problem isn't the financial system. One bad apple can make things really costly for all of the other good apples. Part of regulation is to make sure that everyone is operating to a specific standard. We do it with mortgage underwriting in a guideline we call B-20. It's a classic example of bringing everyone in the system up to a minimum level. That's a core reason for doing it.

The other reason we should do it is because our institutions are internationally active. They raise money overseas and they use it to make investments here in Canada, whether it's in residential mortgages or business loans. If our institutions aren't seen to be managing this risk intelligently, and one of the criteria is that the regulator's serious about climate risk, then their cost of funding could go up.

We're very sensitive to investor perceptions about the strength and reliability of Canada's financial institutions.

● (1120)

Mr. Yvan Baker: In 20 seconds, can I ask you what the worst-case scenario is if climate risk were not being managed by financial institutions? What could happen, from the perspective of financial institutions?

Mr. Peter Routledge: In our climate scenario analysis, which we did last year with the Bank of Canada, we looked at that. What happens is the longer you delay adapting to climate change, the greater the risk of financial instability.

If we stopped all of this today, would the system buckle? No. Funding costs would probably go up.

In the 2030s, when the impact of climate change and the impacts of the transition that other countries are making are starting to be felt, there would be a rising risk of financial instability in Canada.

Mr. Yvan Baker: Basically, managing climate risk is not an expansion of your scope. It's core to managing risk within the financial system and protecting savings, the housing market and the loans that Canadians rely on every day.

Is that fair to say?

Mr. Peter Routledge: We see managing climate risk as core to our purpose and the mandate assigned to us by Parliament.

The Chair: Thank you. That's the time.

Thank you, Mr. Baker and Mr. Routledge.

Now, it's over to the Bloc and Mr. Ste-Marie, please, for six minutes.

[*Translation*]

Mr. Gabriel Ste-Marie: Thank you, Mr. Chair.

Mr. Routledge, Mr. Tardif, thank you for being here with us.

I would just like to add that we applaud this vision wholeheartedly.

I have a few questions on guideline B-15, which was released last month. What has been the reaction from institutions and investment funds to this guideline?

[*English*]

Mr. Peter Routledge: That's a great question.

The institutions we regulate have an eye toward how Canadian institutions are perceived by Canadians, certainly, and by investors globally. They accepted the premise that we needed to have a regulatory regime around climate change.

This consultation we did over the last year was characterized by a great deal of give-and-take with institutions of all sizes. We calibrated our guideline in a way that made it manageable and adaptable for the institutions in question. They would tell you, I think, and they have said this publicly, that they are very concerned that we would abruptly increase capital requirements for climate risk and do so in a way that “unlevelled the playing field”.

We will not do that. We will make a concerted effort to make sure we quantify and measure the risks associated with climate change and then ensure institutions manage those risks, with all the other risks they have, and ensure they have ample capital and liquidity buffers for all risks. If something goes wrong that you don't expect, the institution absorbs the hit and keeps going.

[*Translation*]

Mr. Gabriel Ste-Marie: Thank you for the answer.

How would you compare guideline B-15 with what has been done in Europe and the United States?

[*English*]

Mr. Peter Routledge: Stephane.

Mr. Stephane Tardif (Managing Director, Climate Risks, Office of the Superintendent of Financial Institutions): With regard to the work we did to benchmark ourselves against other jurisdictions, this is something we spent a lot of effort doing. Just to give you some hard evidence from some of our peer jurisdictions, for example, the U.K. has had similar guidance in place since 2019. The European Union, under the European Central Bank and the European Banking Authority, has had these expectations since probably 2020 and is now supervising its financial institutions against those expectations and incorporating the effectiveness of climate risk management in the risk assessments that the European Central Bank and the European Banking Authority are doing.

What B-15 did was raise our expectations and bring us in line with what's happening with our G7 and G20 partners.

● (1125)

[*Translation*]

Mr. Gabriel Ste-Marie: Thank you.

I have a more technical question on Part III of Chapter 1. I don't know if this is the same topic that my colleague Adam Chambers was asking about, because the numbers are not the same. You said that this part would become a separate chapter in the next version of the guideline. Why?

[*English*]

Mr. Stephane Tardif: Given that the management of climate-related risks is relatively nascent, our understanding of the trajectory of how these risks will manifest within our system is evolving. We felt it was important to signal to the market that guideline B-15 will be iterative. It will be evergreen, and B-15 in March was simply the first two chapters of that evolution.

We felt, in the spirit of transparency, that we would tell the market and tell industry that we are continuing internal efforts to understand how to incorporate climate scenario analysis, for example, to understand the data needs that institutions will require. There's an evolution in the thinking, and we're simply saying that there might be additional chapters that could touch on things like scenario analysis, capital, liquidity and other topics.

[*Translation*]

Mr. Gabriel Ste-Marie: Thank you. My speaking time is limited and is running out. I have one last technical question.

Principle 2 contained in Chapter 2 states that federal financial institutions should “disclose specific and comprehensive information”. What standards must they meet? You spoke of an approach that would be tailored to the size of the institution. Are there any similarities or links with what institutions will do here in Canada and what is required in Europe, for example?

[*English*]

Mr. Stephane Tardif: We grounded our disclosure expectations in the FSB's task force on climate-related financial disclosures. I would remind the committee that this standard has been in practice internationally since 2017. Many of our institutions have voluntarily signed up to the TCFD and are already disclosing along that framework.

We also proportionally phased in disclosure requirements based on the size and complexity of our institutions, so the largest, most complicated financial institutions will start to have to disclose in 2025, and then we phase those in in subsequent years depending on the type of disclosure.

They are meeting international standards, I would say, for example, with what's coming internationally with the International Sustainability Standards Board. We are bringing our institutions to a standard of disclosure that is already in practice in many other jurisdictions.

[*Translation*]

The Chair: Thank you, Mr. Ste-Marie.

[*English*]

Now we go to Mr. Blaikie, please, for six minutes.

Mr. Daniel Blaikie (Elmwood—Transcona, NDP): Thank you very much.

I'm going to take just a slightly different tack from what we've been discussing so far.

The last time we had the Parliamentary Budget Officer here at committee, we had what I think was a good and constructive conversation about carbon pricing, and we identified that there are three considerations in respect to carbon pricing. There's cash-out, cash-in, in respect to the rebate; then there's the further calculation of wider economic costs to Canadians as a result of carbon pricing that's not necessarily what they pay directly as a charge, as it were; and then the other category was the benefit of emissions reduction over time.

What the Parliamentary Budget Officer said was that he's looked at the first category, and he's looked at the second category, but there's really not enough certainty and there's not an effective modelling to try to figure out what kinds of consumer savings would be generated by lowering carbon emissions in the economy over time.

You've now undertaken this work. You're requiring investors and companies to do climate scenario analysis. I'm wondering the extent to which the models that are being developed for risk assessment might hold some promise to be able to make some projections about the consumer impact of emissions reduction over time, so that we can calculate that into an overall assessment of what a carbon price actually costs Canadians as a net benefit or a net cost.

Mr. Peter Routledge: The analysis proposed, just to be clear and straight, would be a second-order analysis. In other words, the first wave of analysis will be understanding the extent of a financial institution's exposure to assets or investments that have an emissions component to them, and then trying to understand, all right, what happens over time as the cost of those emissions goes up.

That's the first step, I think, and then in time, if I were a bank's CEO or chief risk officer, I'd want to start asking what the impact is on the consumer wallet and how that might affect consumer well-being and, ultimately, consumer credit quality. Then you might start to see people asking that creative analytical question: Can we forecast out what the benefits are to the consumer wallet, and how I am benefiting? We're a ways away from that, though.

● (1130)

Mr. Daniel Blaikie: I certainly hear that we're a ways away from that, and I think that was the answer, by and large, that we got very clearly from the PBO, but I wanted to assess the promise of this climate scenario analysis for perhaps being able to deliver that, because I think—and I'm not proposing that this is a problem for you to solve, and certainly not here at the table today—the problem is that it would be difficult to have an honest debate with Canadians about the impact of carbon pricing, because the analyses will be skewed against carbon pricing as long as we can quantify indirect costs to consumers without being able to quantify indirect benefits. There is a structural deficit in the empirical side of the argument that's going to favour arguments against carbon pricing until we can quantify potential indirect benefits to consumers.

Partly I just want to note that, and I want to take away from this conversation—correct me if I'm wrong—that there is some promise in the work that you're requiring companies to do, or strongly suggesting that companies do, as a regulator, that we might actually be able to one day quantify those indirect benefits once this raw information is more readily available and more readily understood by various actors in the economy.

Mr. Peter Routledge: In the course of just normal credit analysis, the more alternative views you take into risk, the more insights you reveal. For example, I know of a retailer who entered the banking business. They found out that certain trends in spending were very good predictors of the creditworthiness of customers. For example, people who buy felt tips for the bottoms of their chairs tend to be better credit risks. That's what the data shows.

In terms of that type of insight, we're not there yet, but it's not unusual for that to emerge when you take a different view into risk.

Mr. Daniel Blaikie: Okay. Thank you very much for that.

Following up on Mr. Baker's line of questioning about what the consequences are of not being able to do this kind of work, you talked about foreign capital markets and the fact that Canadian financial institutions and other Canadian players go into foreign capital markets in order to raise capital for investments here in Canada.

Has there been in your journey up to here an attempt to quantify what the negative effect on foreign direct investment could be for Canada if international investors or financial institutions in other countries lose confidence in the Canadian financial institution because, in their opinion, it's not adequately preparing for climate risk, understanding climate risk and integrating that understanding into its practices?

Mr. Peter Routledge: To my knowledge there have been no international studies on that question of how far spreads would widen in response to a Canadian financial institution maybe not being up to snuff on climate risk management. The banks that we regulate have roughly $7 trillion in assets that they manage, that are on the balance sheet, and one basis point of widening times $7 trillion is a huge number, so it could be material.

The Chair: Thank you for that.

Thank you, Mr. Blaikie. That's the end of our first round.

We are moving into our second round. We'll have time for one full second round. We'll start with the Conservatives.

Mr. Chambers, you have five minutes, please.

Mr. Adam Chambers: Thanks very much, Mr. Chair.

Mr. Routledge, I apologize on behalf of the chair, who didn't give you a chance to respond to my last comment, but I think we got that out in the previous rounds.

It's safe to say that you think the work of B-15 is very core to OSFI's mandate. Is that what I understand you to believe?

● (1135)

Mr. Peter Routledge: We think our work on climate risk management flows from the purpose in our mandate.

Mr. Adam Chambers: Okay.

What are the costs of non-compliance? What if a financial institution just doesn't disclose? What happens to them?

Mr. Peter Routledge: We have a principles-based regulatory system. It's important to understand that B-15 is not a set of rules whereby there's a penalty—a speeding ticket, if you will—if they don't comply. There is an articulated level of interactions with boards and senior managers. When we as a regulator deem an institution to be out of line with the principles set forth in our guidelines—for example, if they're underwriting mortgages in a way that contravenes our guideline B-20—we don't hit them with a penalty. We sometimes have extended conversation about that.

I suspect that if a board member or a senior executive were before this committee and were asked what would happen in non-compliance, they would say that the regulator would start off those conversations and would require or ultimately oblige—“oblige” is better than “require” in a principles-based system—institutions to come into conformance.

Mr. Adam Chambers: Okay. That's fair enough.

You brought up B-20. It's your first time being here in a while. We've had a bank failure, multiple bank failures, in the U.S., and some challenges even in our own mortgage market, which I understand OSFI is following very closely, extending amortizations.

Do you think financial institutions need to be more transparent about the amount of their books that have mortgage amortizations extending well beyond 30 years? Some banks have been forward with this information and others, to my understanding, have not been as public with the risks that are now increasing.

Mr. Peter Routledge: In our view, transparency is a risk mitigant and not a risk accelerant. As superintendent, I don't want to presume to guide boards of directors and senior executives on what to disclose and what not to disclose, but I will say that sunlight is a very effective way to mitigate risk.

In general, if I look at Canadian bank disclosures on mortgage risk and I compare them to those in other systems and to the risks we see, they're pretty balanced. They can always do better, but it's not a major issue from our perspective.

Mr. Adam Chambers: Thank you.

In the last budget, there was a section on code of conduct for extending amortizations. Did OSFI consult prior to that appearing in the budget?

Mr. Peter Routledge: That code of conduct would be put into place by the FCAC, financial consumer affairs.

Mr. Adam Chambers: That's fair enough. The question—

Mr. Peter Routledge: We talk to them all the time and sit on FISC.

Mr. Adam Chambers: Were you aware of it before it ended up in the budget?

Mr. Peter Routledge: I wasn't aware of what was in the budget, just to be clear.

Mr. Adam Chambers: You were consulted on it, though. Okay, that's fair enough.

Mr. Peter Routledge: We talk about those issues every day with the FCAC.

Mr. Adam Chambers: Thank you.

Is it fair that someone who does not have a mortgage today is not able to get a 50-year amortization by walking in off the street, but someone who has a mortgage today, who has qualified, can get that unilaterally from their financial institution? Is that fair?

Mr. Peter Routledge: My job is to ensure that Canadian banks manage their risk. I'm going to try to give you a straight answer. My job is credit risk, liquidity risk, climate risk and all that.

Mr. Adam Chambers: Right, but you also set amortization rates, don't you?

Mr. Peter Routledge: When you're thinking about amortizations and you're talking about lengthening amortizations, that is a feature of a particular product that goes by the name of “variable rate mortgage with fixed payments”. As those variable rates—

Mr. Adam Chambers: I understand how they work. I'm asking whether it's fair that you're preventing people from obtaining that same mortgage product.

The Chair: You're out of time, Mr. Chambers, so you're going to need a very short answer.

● (1140)

Mr. Peter Routledge: As superintendent, it honestly isn't in my mandate to determine what's fair. Lengthening amortizations increases risk to a mortgage, and we require a higher capital for that.

The Chair: Thank you, Mr. Chambers.

Now we're over to the Liberals with Ms. Chatel, please, for five minutes.

[*Translation*]

Mrs. Sophie Chatel (Pontiac, Lib.): Thank you very much, Mr. Chair.

Mr. Routledge, thank you for being here with us today.

I would like to go back to something you mentioned earlier. You said in English:

[*English*]

“climate has emerged as a...real financial impact...on [the] financial [sector].”

[*Translation*]

Canadians are wondering what will be the true impact of the climate change crisis on the financial system. Do you have any examples to give the people who follow our committee's work?

[*English*]

Mr. Peter Routledge: The risks that flow from climate change, which would be physical risks or transition risks, add costs, ultimately, to a financial institution. High risk usually means some form of higher either credit loss or investment loss, unless it's managed appropriately.

The earlier and more effectively financial institutions adapt their risk management policies to reflect climate risk, the more likely it is that those costs will be lower. An example would be flood insurance policies. As floods become more prevalent, flood insurance costs go up; however, the earlier an insurance company identifies flood risk and begins pricing its products to reflect that reality, the more likely it is that consumers and homeowners will incorporate those higher costs in their home-buying decisions, and then the less likely they are to be susceptible to that risk. The earlier, the better, always.

[*Translation*]

Mrs. Sophie Chatel: Thank you very much.

The Office of the Superintendent of Financial Institutions and the Bank of Canada are members of the International Network for Greening the Financial System, which is an important initiative. According to the coalition of finance departments, central banks and supervisors:

[*English*]

“continual nature loss could have severe and sudden impacts on the economy, and hence on the financial system.”

[*Translation*]

We have spoken at length about risks linked to climate change, but it has also been recently established that the risks linked to the loss of biodiversity are just as great. What will be the major impacts on the banking system?

[*English*]

Mr. Peter Routledge: We have done some initial internal work on the risks of biodiversity, and our view is as follows. It is still a fairly underquantified risk, not just in terms of our technical focus, which is credit risk, liquidity risk and all that, but in terms of its impact on the economy. As the Bank of Canada progresses its work into biodiversity laws, we'll have to think about that and do some scenario work to determine how biodiversity laws might have second- or third-order effects.

I'll leave it there.

[*Translation*]

Mrs. Sophie Chatel: In the second chapter of the guideline, we find principles on the disclosure of financial information that is linked to climate change.

There's a lot of work going on on taxonomy right now. You mentioned the Sustainable Finance Action Council. Can you tell the committee about the progress that has been made in this field? How did you get involved in the important work of taxonomy, which will help the residents of my riding who are looking to invest in sustainable or green products avoid being taken in by greenwashing?

Mr. Peter Routledge: I will ask my colleague Mr. Tardif to answer this question.

[*English*]

Mr. Stephane Tardif: There's a huge ecosystem around disclosures and taxonomy as a classification of investments and assets around the whole spectrum of ESG.

What you've seen in B-15, in chapter 2, is that we point specifically to updating B-15 once the ISSB publishes its final standards, which are expected this summer. That's the link to ISSB. We will point to ISSB.

We are also very supportive of the work to develop a sustainable finance taxonomy in Canada. We think that any efforts to better classify and categorize investments will help, ultimately, with prudential risk management. Although we're not involved in the development of a taxonomy, we support that work.

● (1145)

[*Translation*]

The Chair: Thank you, Ms. Chatel.

[*English*]

Now I will go to Mr. Ste-Marie, please, for two and a half minutes.

[*Translation*]

Mr. Gabriel Ste-Marie: Thank you, Mr. Chair.

Mr. Routledge, my questions are about the relationship between zombie firms and the financial institutions that manage them, and the links between zombie firms and climate risk management.

You are no doubt aware of the study on zombie firms conducted by the Bank for International Settlements which was published in 2020 and updated in 2022. We can see a higher prevalence in Canada, due to the type of operations and their location. Many financial institutions are struggling to manage the debt of zombie firms.

How can financial institutions make good on their transformation and integration efforts linked to climate risk management? What will be the byproduct?

[*English*]

Mr. Peter Routledge: By “zombie institutions”, do you mean non-bank companies that are affected by climate change or banks affected by climate change? It's just a point of clarification.

[*Translation*]

Mr. Gabriel Ste-Marie: What I would like to know is how financial institutions are going to manage climate risk given the fact that many of their creditors are zombie firms, i.e., firms that are on life support.

[*English*]

Mr. Peter Routledge: The phenomenon of what is referred to as “zombie institutions” is institutions that have financial statements that indicate they're a going concern when they are not, in fact, a going concern. In terms of managing that risk for financial institutions, assume for a minute that the zombie institution in question is turned into a zombie by some form of climate risk. A financial institution has agency. It has the ability to deem that loan to a zombie as non-performing and then leverage the courts to work it out.

What it takes at the financial institution is a will to act. Our job in putting together bank regulations, whether in respect of climate risk, credit risk or what have you, is to create a series of expectations and principles that cause our institutions to identify problem credits and work them out faster.

The Chair: Thank you.

[*Translation*]

Thank you, Mr. Ste-Marie.

[*English*]

Now it's Mr. Blaikie, please, for two and a half minutes.

Mr. Daniel Blaikie: As data reporting and analysis of climate risk improve over time—not just for particular investments but also for economy-wide impacts—do you think it would be through the kinds of principles-based guidelines OSFI issues or more organically within institutions themselves that we might see an effort to push for the creation of products to help mitigate that economy-wide climate risk?

For example, could we make a case that when consumers are getting a mortgage, financial institutions could make it easier for, or consult proactively with, mortgage clients who are purchasing a new home? Could they, for instance, try to increase the insulation of the home or change to an electric furnace or a geothermal heating system as a way of reducing those economy-wide emissions and climate risks? Do you think the focus will continue to be on a particular business for itself—its own emissions impact and climate risk—or will there be ways of getting to use this data and these better practices for economy-wide impacts?

● (1150)

Mr. Peter Routledge: What we would focus on is simply our banks quantifying their exposure to climate risk, then building it into their risk management. As a result of that analysis or other work, individual financial institutions—be they banks or insurers—may incorporate that into their product design and pricing. That wouldn't be unusual. For example, typically, if homeowners put in place a security system, they have a lower insurance premium.

Could that happen as sophistication around our understanding of climate risk improves? Yes.

Mr. Daniel Blaikie: Thank you very much for that.

Very quickly, I'm interested in the conversation you're having with banks right now about these extended amortizations, from the point of view of what both financial institutions and consumers should be doing to prepare for the renewal period.

If interest rates haven't gone down significantly—or even if they have—in order to get that amortization back down to what it ought to be at renewal, there would presumably be significant hikes in the fixed payment.

Mr. Peter Routledge: Briefly, we know what it would take to bring the amortizations back into line, and so do the banks. What we ask them to do is to get ahead of that early. Many of these mortgages were written just a year or two ago, so there are three years.... Typically, they're five-year contracts, so we have some time to get this handled. We ask them to get on this early, as does the FCAC. Their mandate is more to ensure consumer fairness in adjudicating that issue.

The Chair: Thank you for that.

Thank you, Mr. Blaikie.

Next, we have Mr. Chambers for five minutes.

Mr. Adam Chambers: Thanks.

I'd like to follow up on Mr. Blaikie's questions.

How much of the mortgage market does OSFI regulate today, as a percentage? Isn't it about 80%?

Mr. Peter Routledge: Yes, it's roughly 80%. It's probably $1.8 trillion total and, in the institutions we regulate, about $1.5 trillion. Those are broad numbers.

Mr. Adam Chambers: At the last appearance, we had a brief discussion on shadow banking. Are you any closer today to understanding some of the risks that exist in that sector, which you currently don't have a full line of sight on? Do you have more insights into what's happening on that side?

Mr. Peter Routledge: By “shadow banking”, are we talking about unregulated lenders in the housing market, as opposed to mortgage securitization and all of that?

Mr. Adam Chambers: That's correct.

Mr. Peter Routledge: Through the data gathering of the Bank of Canada and Statistics Canada.... I would say we can capture and measure probably 80% of unregulated lenders through periodic data gathering. That tells us that part of the sector is still about 1%.

Mr. Adam Chambers: Do you know what is happening with amortizations in that sector, or how those institutions are dealing with the same issues the banks you regulate are dealing with?

Mr. Peter Routledge: Many of those entities you're talking about raise money from the public and make some form of disclosure in terms of what they're doing. From what we've been able to gather so far, they are tending to be less prone to flexibility.

Mr. Adam Chambers: Isn't it more likely than not that a large financial risk event to the system comes from the 20% of the market that you actually don't have a great line of sight on or influence over?

Mr. Peter Routledge: Of the 20% you talk about, 1% of it would be these unregulated lenders—mortgage investment corporations. Most of the rest are credit unions, which are regulated by provincial regulators. While provincial regulators don't perfectly and identically adopt OSFI guidelines, they're pretty close. I talk to provincial regulators semi-annually and—

Mr. Adam Chambers: You're comfortable with the current—

Mr. Peter Routledge: I'm comfortable with the 19%. The 1% is worth watching, but it is still small.

Mr. Adam Chambers: Do you think the new B-20 guidelines are going to push more people into the 20% space or the 1% space if they become more onerous?

● (1155)

Mr. Peter Routledge: The evolutions for B-20 that we're currently considering are still in development. We're consulting with the institutions we regulate to ensure that type of unintended consequence does not happen. That's why we do consultations.

Mr. Adam Chambers: That's fair enough.

Does OSFI have a view or model of what it thinks house prices would or could correct to over the next six months?

Mr. Peter Routledge: I was a financial analyst for many years, and in predicting housing markets I probably have a higher error rate than in any other prediction I made.

Bluntly put, no.

Mr. Adam Chambers: That's fair enough, but my question is....

With respect, you gave an interview. You were on a podcast, and you said that Canadians could expect to see a 20% correction in real estate prices.

Mr. Peter Routledge: Yes.

Mr. Adam Chambers: That was, I think, in August 2022. It was just eight to 10 months ago.

Mr. Peter Routledge: Call it a year.

Mr. Adam Chambers: Yes, it might have been a year.

Is that the OSFI's view? Was that your panel's view?

Mr. Peter Routledge: From memory, what I believe I was saying was that given the pressures in the economy and the pressures with inflation, I could see a scenario in which house prices in specific cities could fall by 10% to 20%.

The spirit of the answer to the question was that Canadians should prepare themselves for 10% to 20% corrections in home prices.

We stress test far beyond that, so we—

Mr. Adam Chambers: That's fair enough.

I have limited time, and I have one final question.

Would house prices fall more or less if amortizations were not being extended?

Mr. Peter Routledge: Extended amortizations are happening as a result of the contractual provisions in the mortgage products.

Mr. Adam Chambers: If banks did not have that flexibility, would they fall more or less?

The Chair: Mr. Chambers, that is the time. I think Mr. Routledge has answered very well given the number of questions he's gotten in the last minute.

Mr. Adam Chambers: Can you provide that answer in writing to the committee, and an analysis, if you would like the additional space?

Mr. Peter Routledge: Yes.

Mr. Adam Chambers: Thank you. I appreciate it.

The Chair: That's great. Thank you, Mr. Chambers.

For our final questioner now, we're going to Mr. Turnbull, please, for five minutes.

Mr. Ryan Turnbull (Whitby, Lib.): Thank you, Chair. It's an interesting line of questioning there.

Getting back to the green finance topic, I'll ask a few questions about the B-15 guideline to start, which I've read and reviewed. I think it has many merits, and I'm really happy to hear that it's evergreen.

A few of the comments from some of the stakeholders across Canada that I've spoken to—in particular, some of the environmental groups—have talked about double materiality. It's this concept that we often assess risk on financial institutions that is coming in due to climate change, but we also should be looking at the outflow of the actions and activities that financial institutions are responsible for in terms of allocating capital and keeping us on track with achieving our net-zero commitment. This is the flip side of it.

Do you think that the B-15 guidelines in some iteration in the future will take that into consideration as well?

Mr. Peter Routledge: Is the question whether we would alter B-15 to reflect an intent to shift allocation of capital away from one industry to another? Is that fair?

Mr. Ryan Turnbull: Yes, perhaps. I think there are multiple questions in there, but yes.

Mr. Peter Routledge: The answer is no, we wouldn't do that. What we aim to do with our analysis and with our guidelines is to ensure that banks and insurance companies and financial institutions are quantifying climate risk and managing their books in a responsible way.

Could a by-product of that over time be a shift away from greenhouse gas-emitting energy extraction toward renewables? Yes, it could, but that is not what we set out to do. What we set out to do is to create a financial system that's resilient to climate change.

Mr. Ryan Turnbull: Would obliging them to allocate capital in accordance with the fundamental principles of addressing climate change not achieve greater stability within the financial system though, and therefore be within your mandate?

Mr. Peter Routledge: We have a strongly held view that in pursuing climate change as a financial system risk and ensuring that banks are managing it and quantifying it appropriately, that outcome, which is an outcome you would not otherwise see, will occur.

From our perspective, we're prudential regulators. We want to ensure that our financial institutions are managing their risks intelligently and appropriately. We don't want to be seen as putting our thumb on the scale for any one particular risk area.

● (1200)

Mr. Ryan Turnbull: Thank you.

What about transition plans? I know there have been conversations about those. They are not explicitly required at this time within the B-15 guideline, but many internationally have talked about the importance, in terms of climate risk governance, of obligating financial institutions to create and be accountable to transition plans.

Would you agree with that? Do you think that will be included in a future iteration of the B-15 guideline?

Mr. Peter Routledge: I'll ask our B-15 expert to answer.

Mr. Stephane Tardif: I would just correct the committee. Transition plans are required in B-15, and what we've also added, which is different from what other jurisdictions have, is that the transition plans also consider not just transition risks but physical risks. You'll see in B-15 specific reference to mandatory transition plans, including physical risks. I'd just like to correct the committee on that observation.

Mr. Ryan Turnbull: That's great. Thank you for that correction.

I also understand that we're trying to create a holistic system here to manage climate risk. We've heard that SFAC is working on the taxonomy. There is some really great foundational work there. We know your B-15 guideline hasn't come into force yet, but hopefully it will soon. We know the Canadian Securities Administrators also have a 51-107 national instrument.

What is missing? I've heard that SFAC contains 25 of the largest financial institutions that are federally regulated in the country, and they're asking for mandatory disclosures. Is that another piece of being able to manage risk, and does OSFI support their request for mandatory disclosures across the entire Canadian economy?

Mr. Peter Routledge: By their discussions, you mean those of the SFAC council—

Mr. Ryan Turnbull: That's the sustainable finance action council, yes. I apologize.

Mr. Peter Routledge: In financial services, transparency trumps opacity every time, so any activity by responsible counterparties in the system that coax, nudge or otherwise mandate more transparency will generally improve risk management.

As a prudential principles-based regulator, we don't do mandator rules. We do guidelines and principles-based regulation, and we'll never change that. It's important that I say that for my regulator constituents.

The Chair: Thank you.

Thank you, Mr. Turnbull, and welcome to our committee.

We want to thank OSFI: We want to thank Mr. Routledge and Mr. Tardif for answering many questions for our committee. Many of them were rapid-fire here, but we did get a lot of information, and we really appreciate your testimony for this study. Thank you very much.

Members, we're just going to suspend quickly to bring in our second panel.

● (1200)

____________________(Pause)____________________

● (1205)

The Chair: Members, we will resume our meeting. We have our witness here for our second panel.

Our witness is Ms. Christine Bergeron, who is the president and chief executive officer of Vancity.

Welcome. You are coming to us remotely. I understand that your sound has been tested and everything is working well.

Ms. Bergeron, you'll have opportunity now for some opening remarks for the members.

Thank you.

Ms. Christine Bergeron (President and Chief Executive Officer, Vancity): Good morning.

Before I begin, I want to acknowledge that I am speaking from the unceded ancestral territories of the Musqueam, Squamish and Tsleil-Waututh first nations. They have been custodians of the lands here for thousands of years, so I want to pay my respect to the elders past and present.

[*Translation*]

Thank you for inviting me today to talk to you about finance and green investments as well as transition and transparency in finance.

[*English*]

Vancity has for decades been working in the field of green finance, and we have been a leader both in disclosure and in thinking about how climate change and social issues are tied together.

Climate change is an urgent threat to Canadians in every province, including Vancity's more than 550,000 members and the communities of British Columbia where our members live and work. Climate change is costing Canada's economy billions of dollars and counting. While some Canadians can afford to adapt their lives to the climate challenge, many Canadians cannot. The climate challenge and the affordability crisis go hand in hand and are making each other worse.

In research that we partnered on recently, 30% of British Columbians, almost one in three, reported being impacted by extreme weather events in the last one to two years. For us in British Columbia, they are floods, fires and heat domes. Fifty-six percent of British Columbians who reported such an impact also reported high financial stress.

Businesses, including financial institutions, have a major role to play in addressing these challenges, and many are willing to step up. The net-zero journey towards a sustainable economy is one we must all take. Government and regulatory action is essential to enable all of us to achieve our net-zero goals faster and more effectively. At the same time, we can't lose sight of the affordability challenges that many Canadians are encountering, both in terms of the rising cost of living and in terms of housing affordability. From our perspective, the climate transition will fail if some Canadians are left behind in the transition, yet affordability is unachievable if we don't also transition to a clean and sustainable economy. The two challenges are inseparable.

On green financing and investment, in comparison to 10 or five or three years ago, tremendous progress has been made broadly in capital being allocated to sustainability. Encouraging and growing green financing and investment in Canada is an important part of the climate transition. We need to continue to see an acceleration of this capital allocation.

Vancity is an active member participant of the sustainable finance action council, which is working to provide recommendations to the Government of Canada to help transition the economy as quickly as possible, including capital allocation to achieve net zero.

Simply put, we believe that we need to transform the economy to one that protects the earth and guarantees equity for all. As we transition to net zero, we also need to pay close attention to how funding for sustainable initiatives is employed.

First, the right voices must be at the table as we transition the economy. If we rely on traditional modes for capital allocation, which have excluded too many Canadians in the past, we will end up with a low-carbon economy that is even more inequitable and potentially leaves workers behind. In addition to thinking about different modes for capital allocation, we also need to think about different frameworks for risk and return with a climate lens.

The work in progress to date in green finance has also largely been done within our current risk and return frameworks. It's useful and very important, but it may be insufficient to enable us to successfully, as a society, reduce inequality or drop emissions sufficiently. We need more innovation in partnerships and collaborations, products and policy.

We believe that consumers, investors and actors throughout various supply chains are ready to make this transition, but they need help in the form of greater climate disclosure, better data and market signals that help to price the climate into our economy. Take, for example, Vancity. We've set a goal of net-zero financed emissions by 2040. The bulk of our emissions come from real estate, both commercial and residential. As we've modelled our pathway to zero, it's become clear that between 80%, possibly up to 90%, of those reductions will need to come from some form of public policy support, either the ongoing implementation of new policies or the introduction of new ones, not to mention that we need a system of standardized building labelling to truly measure our progress.

I know we are not alone. Many private organizations are ready to act and keen to play their part in the transition, but like us, they need policies, data and investments to help them get there.

● (1210)

Transition finance is an important tool in achieving all these goals. However, the devil, as the saying goes, is really in the details. We know that it is essential for financial institutions to work with heavy emitters to transition their business models to the clean economy. At the same time, we believe that this work must be accompanied by transition plans that are aggressive, credible and transparent.

The public should have confidence that a promise to transition brings with it not just financing, but also a fundamental and urgent change to the way we do business. As part of that change, we work collectively to ensure that the workers who built these organizations are able to thrive and prosper from the transition and not be left behind.

Small businesses must also be part of the journey to net zero. Consumers are making more buying decisions than ever based on a business's reputation, including its commitment to social and environmental issues. This isn't just individual consumers, but also large—

The Chair: Thank you, Ms. Bergeron.

The members want to get to questions, and we want to have as much time as possible to ask you questions.

We are going to start right away with our first round of questions. We have the Conservatives first, with Mr. Morantz for six minutes, please.

Mr. Marty Morantz (Charleswood—St. James—Assiniboia—Headingley, CPC): Thank you, Mr. Chair, and thank you, Ms. Bergeron, for being here virtually.

It's been a very interesting study on green finance. I must admit it wasn't a topic that I knew much about before we embarked on this study.

You talked about affordability in your opening statement. I realize that British Columbia has its own carbon tax. It's not a backstop province.

Recently a Parliamentary Budget Officer came out with a report that basically said the opposite of what the government has been telling us about the affordability of a carbon tax. They've been telling the public that the carbon tax is essentially neutral in terms of their pocketbooks. It's cash in and cash out. The Parliamentary Budget Officer now says that in most provinces, families will be out of pocket over and above the rebates by $1,500 to $1,800.

I'm just wondering if you're concerned about the affordability crisis. Do you think revisions need to be made or that the carbon tax needs to be scrapped in order to ensure that Canadians can afford to eat, heat their homes and make their mortgage payments?

● (1215)

Ms. Christine Bergeron: Thank you.

From my perspective, we are concerned about the combination of affordability and climate impacts, knowing that additional financial stress occurs on those who are being affected by climate, in addition to affordability.

As a financial institution in British Columbia, I don't have a perspective specifically on the carbon tax as it relates to individual homeowners.

Mr. Marty Morantz: Again, in terms of affordability, in the fall economic statement in November, the government levied a new tax on financial institutions. They called it a one-time tax. I think they called it a pandemic dividend, or something like that. I believe they collected about $15 billion from the major financial institutions.

In your capacity as the head of Vancity, would you feel comfortable with an organization like Vancity paying something like this?

Ms. Christine Bergeron: We are provincially regulated and have various tax provisions. We certainly want to pay all taxes that we need to pay. That's largely our perspective. It's to contribute back as we can.

Mr. Marty Morantz: However, do you want to do it on the same level as the major financial institutions?

Ms. Christine Bergeron: I'd have to look at the details, but my understanding is that we are taxed appropriately for the size of our institution and the revenue and profit that we have.

Mr. Marty Morantz: I want to turn to your website, where it talks about “eco-efficiency loans”.

I just wonder if you could explain that program a bit. For example, if somebody buys a 100-year-old home that has poor insulation and is basically a nightmare in terms of carbon emissions, would that homeowner qualify for an eco-efficiency loan?

Ms. Christine Bergeron: For an eco-efficiency loan, are you referencing a specific federal loan?

Mr. Marty Morantz: No. Your website talks about a program called “eco-efficiency loans”. Actually, they're business loans.

Maybe a home isn't the right example, but are you familiar with that program?

Ms. Christine Bergeron: Sure. I can speak to some of those examples of our products.

Mr. Marty Morantz: Mainly because I have limited time, what I'm curious about is whether someone who's applying for an eco-efficiency loan for a business would get preferential terms in interest rates, fees, amortization and that kind of thing over a conventional business loan.

Ms. Christine Bergeron: Broadly, we have been piloting various different programs and products to understand how we can support people to transition if they're interested in doing retrofits. Largely, it's related to retrofits.

We have looked at pricing and terms and conditions, but typically, these are pilot projects in which we are working with a specific business owner. We do not turn people away—to your question on depending on what the business is like—but we work with them, and we want to work with them on transition plans.

Mr. Marty Morantz: In terms of the nature of some of these loans.... Say, for example, a first nations group came and wanted to have an oil well or to build an LNG facility for natural gas, or they wanted to develop a mine on their property for critical minerals or that sort of thing. Are those the types of loans that Vancity continues to do?

Ms. Christine Bergeron: In our history, we have not funded oil and gas projects. That's simply due to where we are located and the types of lending that we do. The vast majority of our book is real estate and commercial mortgages, etc.

We don't fund oil and gas projects. We work tremendously with first nations on different projects that they might have. We would look at everything on a one-deal basis to see what it is that they're looking to develop and how we may be able to support them, but if it was purely oil extraction, we would not.

● (1220)

Mr. Marty Morantz: No. Okay. Thank you.

The Chair: Thank you, Mr. Morantz.

Now we go to the Liberals and Ms. Chatel, please, for six minutes.

[*Translation*]

Mrs. Sophie Chatel: Thank you very much, Mr. Chair.

Ms. Bergeron, thank you for joining us for this important study.

I often go back to my riding to meet residents. Right now, I am hearing how worried they are by the banking system. They are seeing what is going on in the United States and in Europe and are wondering if Canada's banking sector is still in good health. I tell them that we have one of the best banking systems.

A little earlier, representatives from the Office of the Superintendent of Financial Institutions explained that this was mostly due to the excellent banking regulations that we have here in Canada. The banking sector was recently deregulated in the United States, which has led to the situation we are seeing now. The office also spoke of the need for the financial sector to have a solid regulatory framework for climate-related matters and the risks that are associated with climate change.

Do you agree with what the representatives of the office have said, i.e., that our financial sector is in good health and that the risks linked to climate change are taken into account?

[*English*]

Ms. Christine Bergeron: Yes, we are supportive of including climate risks in broad regulation.

[*Translation*]

Mrs. Sophie Chatel: You were one of the first financial institutions to become a member of the Net-Zero Banking Alliance. I was intrigued and I did a bit of digging. Can you tell us about the work that the Alliance is doing on a global scale? My colleagues should know that the Alliance's meetings are held under the auspices of the United Nations. Can you tell us more?

[*English*]

Ms. Christine Bergeron: Yes, we were one of the first to sign on, and we are one of the first to have a net-zero target that is more advanced in timelines. This is, first of all, to ensure that we are credible in our own work as we move this forward, because we see the risks to the economy.

With the Net-Zero Banking Alliance, and then more broadly with the work with the U.N., the value is in first collaboration with institutions around the world. There are many doing really great work around disclosure, product innovation and collaboration with government. It's also about working toward better standardization and better disclosure. Those are elements that I know were spoken to in a previous panel. We agree on the importance of transparency, but we also think that standardization and the ability to have those discussions outside of our own jurisdiction are also very important. That's why we contribute.

We are not as large a financial institution as many others in Canada, so it takes our resources to do this, but we think it's important, and it's why we were doing the work for many years prior to its becoming more understood in terms of longer-term risks to our own membership.

[*Translation*]

Mrs. Sophie Chatel: You spoke of transparency and the importance of disclosing our risks and our progress in the transition towards a greener economy. If we compare ourselves to England and Europe, who have made much progress in this field, Canada is lagging behind. Are you concerned? Are we starting to catch up?

● (1225)

[*English*]

Ms. Christine Bergeron: I think we have been making significant progress. With the different councils in place and the work being done by regulators, we are catching up.

We have certainly heard from other jurisdictions that they want to ensure we're at that same level, but we have seen tremendous progress.

[*Translation*]

Mrs. Sophie Chatel: If we are not able to catch up, will we run the risk that foreign investments will flow towards Europe instead?

[*English*]

Ms. Christine Bergeron: That's difficult to say, but we know that money and funds want to flow to areas that have certainty and good disclosure, and where there is understanding of those longer-term risks.

Depending on how Canadian institutions disclose, there would then be outcomes that would flow from that.

[*Translation*]

Mrs. Sophie Chatel: Thanks to financial institutions with wonderful leadership such as yours, I think we will catch up and be able to attract and retain foreign investments that will help our economy grow.

Thank you very much.

[*English*]

The Chair: Thank you, Madame Chatel.

Now we will go to Mr. Ste-Marie, for six minutes, please.

[*Translation*]

Mr. Gabriel Ste-Marie: Thank you, Mr. Chair.

Good morning, Ms. Bergeron, and thank you for being here. I will ask you some questions in a bit, but first of all, I have two comments to make.

Firstly, I know that the motion that Mr. Chambers tabled here with the committee will not be debated today, but I just want to remind people that we were contacted before the labour dispute by accounting firms that were already swamped, particularly due to a lack of staff, and that the deadline of May 1 would already have been hard to meet. Then, when the big icestorm hit Montreal and the surrounding area, many municipalities went without electricity for a week. Accounting firms in those towns contacted us to tell us that on top of the hell of trying to do their clients' returns before the deadline with staff shortages and week-long blackouts in many places, they aren't able to get any immediate answers to their questions because of the labour dispute. I just want to tell my colleagues that for all these reasons, we will be supporting the motion.

Secondly, I would like to once again give my sincere thanks to the analysts, who are doing a tremendous job providing background documents to committee members. This is always true in general, but it is particularly true in the field of green finance.

Ms. Bergeron, back to you. Is your financial institution governed by the Office of the Superintendent of Financial Institutions, whose representatives have just spoken, or does it fall under provincial authority?

[*English*]

Ms. Christine Bergeron: We are provincially regulated by the BCFSA. We have a fully owned subsidiary bank called Vancity Community Investment Bank, which is regulated by OSFI. However, it is small by comparison, on an asset basis, to the credit union.

[*Translation*]

Mr. Gabriel Ste-Marie: Right. Thank you very much.

In that case, I would like to hear what you have to say about guideline B-15 on climate risk management, in the category on sound commercial practices and prudential limits. What do you think of this guideline and how do you interpret it? What is the viewpoint of smaller financial institutions that come under provincial jurisdiction, such as yours, when it comes to this guideline?

[*English*]

Ms. Christine Bergeron: Thank you.

Although we are regulated by the BCFSA, we often take into account OSFI's guidelines. We are still a large financial institution. For example, we do stress tests and we are supportive of the B-15 guidelines.

We already disclose our emissions, and we have been doing a lot of work to better understand scope 3. We do not yet have the best data, so we are working on that. We have conversations with other financial institutions across the country. Yes, it does take resources, but it's important.

For us, it's extremely important as we think, twofold, about climate risks on us as an institution, and then about the emissions we are part of in the lending we provide to our members.

● (1230)

[*Translation*]

Mr. Gabriel Ste-Marie: That is most interesting to hear. Thank you for your answers.

Therefore, given the information that you have just provided, do you believe that the deadlines set by the Office of the Superintendent of Financial Institutions for the disclosure of information or data are reasonable and that institutions can meet them?

I will ask the following question once again: do you think that the smaller financial institutions are treated fairly by the office?

[*English*]

Ms. Christine Bergeron: From our perspective—if I understand the question, so please correct me if I'm not answering your question—we feel that the timelines are sufficient.

Does that mean we are going to continue to need to improve our data collection? Yes, we need to continue to improve data collection.

An issue that comes with that is that we need to find a lot of that data from small businesses and from our membership. That will continue to be something that needs to occur. We are supportive of those timelines.

In terms of whether small institutions are treated fairly by OSFI, I can speak only to the small bank that we have as a subsidiary. We don't have any issues in how we are treated by OSFI.

[*Translation*]

Mr. Gabriel Ste-Marie: I am thrilled to hear that. I still have a minute left.

I would just like to make sure that I have understood correctly. The costs incurred to meet these new standards are perceived by yourself as necessary and are not an issue. Can you please confirm that these costs are necessary and that the institution has no problem absorbing them, given the concerns regarding the climate crisis?

Moreover, in your statement, you said that it is important to have an energy transition plan, at least that's what I understood. Can you please tell us again about the importance of having such a transition plan?

Thank you very much.

[*English*]

Ms. Christine Bergeron: Certainly, thank you.

On cost, it's difficult for me to speak on behalf of other financial institutions. I can say that we believe it is important given the overall risks that we'll see in the long term, as we think of the long-term sustainability of a financial institution. We've also been working on it for many years. We've had these costs over time. If someone is coming in new to it, that will be a different piece of work that they will need to think about, and they will need to resource that accordingly. I can't speak to where they are in that work, but for us, we think it's important.

Secondly.... I'm sorry. Your second question was—

The Chair: I'm sorry, we've actually surpassed the time. We're going to move on.

Thank you, Mr. Ste-Marie.

We're moving to Mr. Blaikie for six minutes, please.

Mr. Daniel Blaikie: Thank you very much.

First of all, I just want to thank you for being here. I think it's really inspiring to see a financial institution that is taking climate risks seriously, not just from the point of view of its own interests, but also, as I'm hearing in your opening comments and already in some answers to questions in terms of a sense of responsibility for the economy-wide effects of climate change, and a sense of the role that financial institutions can and I would go so far to say ought to play in the economy-wide mitigation of the costs of climate change. Thank you for that.

I have a question in line with that. We just had folks from OSFI here. We were talking a little bit about the work that financial institutions—some are just beginning to do it and others have been doing it for longer—are doing to develop climate scenario analysis, and how that could be mobilized eventually in order to try to figure out the role that financial institutions can play in lowering emissions economy-wide.

I'm wondering what you think about that. We can certainly imagine folks saying, that's not really the business of financial institutions—they should just pay attention to the bottom line and they should only be concerned about climate risk to the extent that it hurts their own return on investment. What I heard from you, though, is that your institution is engaging in some work to try to help clients lower their emissions. I got the sense that maybe it's not just to protect Vancity's own return, but also that there's a sense of larger responsibility there.

I'm wondering, if financial institutions are interested in being a positive force in reducing emissions economy-wide, does that mean it's a zero-sum game? Is that just a cost they have to take on out of the goodness of their heart, or do you think they can do that by developing products that realize a reasonable return for the institution and for its share owners, whether they are share owners of a credit unit or share owners in the more traditional sense?

● (1235)

Ms. Christine Bergeron: As a credit union, Vancity is member-owned, so we know our members want us to think about climate transition broadly, and about getting to net zero.

We also know that we cannot hit those targets on our own, and we need our members to act. Ultimately, as a financial institution, we are the intermediary. The member needs to be the one to act. We are working very hard on products, services and partnerships that will allow them to act and make those changes, which many want to do but don't know where to start.

I think that broadly there's a very large opportunity. Opportunity is always the other side of risk and vice versa, so yes, we believe there are going to be new ways to think about products and about how to enable and help business owners and individuals. Even though thinking about the risks is extremely important, it's one element of the work ahead.

Mr. Daniel Blaikie: You mentioned in your opening comments, I believe, the need for a more universally accepted building standard in respect of R-value and emissions overall.

I'm just wondering, if we were to have that in place—and I'm not suggesting that we have to wait for it either—is there opportunity? If we're thinking about a mortgage product, for instance, is there an opportunity to try to think about structuring a product that consults the purchaser of a new home proactively about the cost involved and incorporates some of those costs into the mortgage of upgrading insulation in a house, changing the heating system, installing solar panels, particularly if there's a two-directional metering system? Is developing a product like that just a risk for a financial institution, or is there some real opportunity in that?

I think we're used to seeing this as an extra expense and something that is just going to cost money, but is there a way...? Particularly if the industry comes along with better standards, and if it's incorporated more into the regulatory environment, are there opportunities for money-making for financial institutions in this, and are there opportunities for savings for consumers, even as the financial institution that's funding these things is making money?

Ms. Christine Bergeron: Our view is yes. I would say that largely those products are certainly being put together and thought through.

We've done a few. Again, we're piloting and trying to really understand what fits for an individual or a small business. For example, we know that our members really want to retrofit their homes, but typically it's very complex, and people don't know where to start. We've piloted a program that says, “We will give you a free consultation on what that could look like for your home.” There are no strings attached to that.

Certainly, yes, we are a business. We would hope that perhaps they would then come to us for that lending, but ultimately our goal is to see emissions drop, first and foremost. There are products whereby we can look at that.

It's been difficult to look at lowering a price. For example, 18 months ago, when our mortgage rates were very, very low, those are different mechanisms, terms, conditions, etc. Ultimately, that pulls in risk, doesn't it? Financial institutions price for the risk, and I think what we are seeing is much more thought around short- versus long-term risk and what that looks like.

Consumers are getting much smarter as well, and doing their own math to find that yes, there's an upfront cost, but over time that life cycle cost ends up being a savings to them.

● (1240)

Mr. Daniel Blaikie: Thank you very much.

The Chair: Thank you, Mr. Blaikie.

We're going to try to get through a second round here.

We're starting with Mr. Chambers for five minutes, please.

Mr. Adam Chambers: Thank you, Mr. Chair.

Welcome to the finance committee, Ms. Bergeron. I appreciate your testimony here this morning.

I also want to publicly thank the analysts, who did some good work in the briefing note to help committee members prepare for this meeting, as they do for many meetings.

We just had OSFI in here talking about one of their guidelines for financial institutions, and there was a bit of a discussion around whether it should be up to financial institutions themselves to decide the kind of risk that they would like to disclose to their members. I note that, in Vancity's circumstances, obviously you have some shared values that you probably share with your members.... It's a source, maybe, of competitive advantage for you as you try to collect members and position yourself against other similar entities.

Would you view that as an appropriate observation?

Ms. Christine Bergeron: I would call it differentiation, perhaps, more than competitive advantage, but we try to respond to our membership because we're member-owned.

You're correct. It is a very different model, though, from the larger banks with shareholders.

Mr. Adam Chambers: I think the question is around whether we should allow institutions like yours to develop their own approaches to these issues—whether it's disclosure or more restrictive lending standards, like you obviously have—as opposed to having a government pick a set of regulatory matters and force them on an industry.

What I'm really getting at is that you've developed something that differentiates you in the market, and now government is getting in that space and telling your institution and those similar to yours how they should be approaching that issue.

Ms. Christine Bergeron: I would say that it is difficult sometimes for people to understand that although it is a differentiation for us, we can achieve all of our goals and, ultimately, our society will not be any different in terms of emissions and effects by climate because of our size.

For us, standardization, broader transparency and more reporting are a good thing collectively. What we're seeing are guidelines to support more consistent reporting. The reporting that we do, we pull from PCAF, which is the Partnership for Carbon Accounting Financials. It's an international accounting standard.

Again, others are doing this. We're supportive of more people reporting it and being transparent.

Mr. Adam Chambers: Thank you for that honest response.

Have you or any of your members had experience with the government's green energy rebate program? It seems like you're involved in some of the housing discussions with members about how to retrofit their homes.

Ms. Christine Bergeron: I'm sure that we have. I have not personally been involved in specific discussions with members on it.

Mr. Adam Chambers: I note that you offer what sounds like a free assessment. Is that correct?

Ms. Christine Bergeron: That's correct.

Mr. Adam Chambers: Okay.

For the government program, you have to pay about $500 for an assessment. You get it back only if what you put in qualifies, and when you try to find out what qualifies, it's a list of a thousand different permutations. It's actually very complicated.

I was going to ask whether you think that should be simplified. It would make it easier for your members to access some of this program funding. Although you don't necessarily know that in advance, would you agree, generally, that it should be a simple program, maybe like yours, and have a free assessment?

● (1245)

Ms. Christine Bergeron: I can only speak to what we offer. The reason we are doing it that way is, again, what we've heard from our membership, and we try to respond.

We give back 30% of our profits every year through distributions to the community, to have an impact in our community. These funds come from that pool of money to support our members.

Mr. Adam Chambers: Thank you.

The Chair: Thank you.

Now we will go to Mr. MacDonald, please, for five minutes.

Mr. Heath MacDonald (Malpeque, Lib.): Thank you, Chair.

I will share my time with Mr. Beech. He would like to go first.

The Chair: Go ahead, Mr. Beech.

Mr. Terry Beech (Burnaby North—Seymour, Lib.): Thank you to my colleague, and thank you, Mr. Chair.

Through you to our witness, I am happy to share that I reside in and am currently on the same traditional territory as you.

I have been appreciating your testimony so far and the work that Vancity does in our community, but I have a small piece of business that I need to address.

I'd like to thank all members who participated in the technical briefings on the BIA earlier this week. The BIA will be tabled later this afternoon, and as we've done in previous years, I think it would be beneficial to commence a prestudy, so that we can hear from officials and stakeholders on this important piece of legislation.

I have been able to discuss the motion with members from other parties, and I'm hoping we can deal with it quickly and go back to our witness. I move:

> That, should a Budget Implementation Act be tabled in the House, the committee commence a prestudy of said legislation and invite officials to provide briefings on the contents of the bill, as well as the Deputy Prime Minister and Minister of Finance.

Thank you, Mr. Chair.

The Chair: Thank you, Mr. Beech.

Members, is there any discussion?

Mr. Chambers, go ahead.

Mr. Adam Chambers: I'll be brief. I have two quick points.

The first is that I think the committee would benefit from some more subcommittee meetings.

The second is that I will note that we had the Governor of the Bank of Canada here earlier this week, for the fourth or fifth time. The Minister of Finance has yet to appear on an invitation other than on her own legislation.

If we want the committee to work really well—and don't intend to take up time—then I would just note that we have to start thinking about how invitations to ministers from our committee work and whether those invitations are treated seriously or not.

The second point on the technical briefing—which was well done by officials—is that there was no simultaneous translation on those technical briefings. At least, I couldn't figure out how to get it. The technical briefing was offered immediately after we received the document, which was hundreds of pages long. I think we should also talk about that in one of these subcommittee meetings. I won't take up more of the time on this point.

I wanted to get that on the record when we're talking about a prestudy and trying to make it work more smoothly for the committee going forward.

The Chair: Is there any further discussion?

Mr. Blaikie.

Mr. Daniel Blaikie: I'll just say quickly that I agree with Mr. Chambers. I think it would be a sign of goodwill for the minister to appear outside the context of studies of her own legislation and to respond to the committee's long-standing invitation to appear. That was in the context of the inflation study. I think that is the extent of the invitation. I express my support for that.

This may be part of what Mr. Chambers is driving at in terms of subcommittee meetings. I think there needs to be some discussion of the letter that we would send to other committees if we wanted to have a process that involved their areas of expertise. I'm certainly concerned to see that happen soon. Perhaps that's a conversation we could have no later than Tuesday.

Again, to the point of having briefings quickly after tabling legislation, I think it would be nice to have an opportunity closer to the back end of the process to ask questions to officials. I think we can ask better questions to officials once we've had the benefit of witness feedback.

All of that said, I'm prepared to support a prestudy. I think we've had this conversation around the table a couple of times now in this Parliament. Budget implementation acts tend to be large bills. I think Canadians are well served when we take the time to study those well. I think we should start that study sooner rather than later. That's especially as we do—I hope we will—consult other committees on some of the content of that bill. I think it's good to get it going.

Thank you.

The Chair: Thank you, Mr. Blaikie.

I have Mr. Ste-Marie.

Go ahead, please.

[*Translation*]

Mr. Gabriel Ste-Marie: Thank you, Mr. Chair.

I would like to thank Mr. Beech for his notice of motion. I am in favour of starting this study soon, given the size of the bill that we can expect to see, based on the notice of ways and means that we have already received.

Speaking of the notice of ways and means, I would like to thank Mr. Beech, as I did during the technical briefing. However, what is truly concerning to me is that we have received 500 pages' worth of explanations, of which more than 230 are written in nearly incomprehensible legalese. This means that we weren't really able to understand everything that was mentioned during the briefing. And yet we have to vote on this notice of ways and means soon.

Personally, I don't feel I can do so, because I haven't been able to read all the pages of the briefing document. That's why I would like to take more time to study the budget implementation bill. Moreover, to go back to what Mr. Chambers stated about the invitations sent to the Minister of Finance, I have to say that I am rather disappointed that we haven't had much access to the minister.

I am therefore in favour of starting the study soon.

● (1250)

The Chair: Thank you, Mr. Ste-Marie.

[*English*]

I have Mr. Morantz on the speakers list.

Mr. Marty Morantz: Thank you, Mr. Chair.

Well, this brings back memories of what happened last fall with the fall economic statement. My view on this is that we're still debating this in the House. There are speakers up all week—and they'll be up next week—on this legislation. It seems to be premature to be studying it in committee. We don't do that for any other legislation.

I am also concerned about the wording of the motion. Last time, the motion essentially prohibited us from asking broader questions about the budget itself. We had officials here who would not answer questions if they weren't specifically addressed in the BIA. There are also things in the budget that might not be addressed in the BIA but which we should be able to deal with if we have a prestudy, or any study of the budget implementation act. My preference would be to see the wording of the motion broadened to allow us to ask officials anything we want, as long as it pertains to the budget and the BIA.

Also, it seems to me that the finance minister needs to be here more often. We're dealing with some very serious issues around affordability and taxation, and concerns about going into an economic slowdown and perhaps a recession. We can't get the finance minister to come to the finance committee. That has to be a priority. I would urge my colleagues on the government side of this table to try to make that happen as soon as possible, so we can get her testimony on the record about serious problems this budget fails to address.

Thank you, Mr. Chair.

The Chair: Thank you, Mr. Morantz.

I'm looking at the room. Is there any further discussion? No.

We'll go to Mr. Beech's motion, members.

Mr. Adam Chambers: I'd like the vote to be recorded.

(Motion agreed to: yeas 7; nays 4)

The Chair: Thank you.

We're back to Ms. Bergeron. I guess we've gone way past the time.

We will now move to Mr. Ste-Marie, who is on next.

● (1255)

[*Translation*]

Mr. Gabriel Ste-Marie: I believe the Liberals didn't get their turn to ask Ms. Bergeron questions. If Mr. MacDonald would like to take a few minutes to do so, I can give him my time. Otherwise I can ask my questions.

[*English*]

The Chair: You're correct. Yes, Mr. MacDonald does have three minutes. We will run over, members. I think we're okay for resources. We will run over our time.

Mr. Heath MacDonald: Okay, thank you.

Ms. Bergeron, thank you for being here today.

Last June, Vancity announced 2025 financed emissions reduction targets. In doing so, it was the first Canadian financial institution to set those targets pertaining to commercial and residential real estate. Now, we're just shy of a year.

I'm wondering whether you can give us an update on those targets and how they impacted your overall portfolio.

Ms. Christine Bergeron: Certainly. Thank you.

We are continuing to do our work to build out the plans to get to our 2025 targets. Part of those targets included working with small business owners on transition plans. We will be disclosing and reporting back out fairly soon. We do that with our annual report, our second set of emissions reporting in addition to that work.

I can only say there's more to come because of the timing, but certainly it has not affected our portfolio specifically.

Our intention and our work is more about working with our membership. It is not about exclusion. It is about new product solutions, different ways to work with members so they can act and make the changes we need to see, in addition to looking at how we can finance clean energy and other areas.

It is very much an inclusionary approach, not exclusionary, for our membership and what we currently fund. I did say that we don't fund specific oil and gas projects as an example, but we're not excluding members who are looking for a mortgage, as an example. We are working with them.

Mr. Heath MacDonald: Thank you.

I think you stressed how important it is for your members for your financial institution to be very progressive in the reduction of carbon emissions and climate change.

What if you were non-active? Where would your membership sit, or what detriment would it be to your portfolio, or even further investing in capital markets, and so on and so forth, as you go forward? What are the issues you would come up against?

Ms. Christine Bergeron: Thank you.

I think that's difficult to answer, first of all, for two reasons.

Members may say one thing, but we don't know how they will actually act after they have said something. More importantly would be that ultimately, for us, our members and our board, the vision we have is to think about transforming the economy. My assumption, which I cannot validate, would be that we would have members who would perhaps look to a different financial institution.

The Chair: Thank you, Mr. MacDonald.

Now we go to Mr. Ste-Marie, please, for two and a half minutes.

Mr. Heath MacDonald: Thank you.

[*Translation*]

Mr. Gabriel Ste-Marie: Thank you, Mr. Chair.

Ms. Bergeron, I have two questions for you.

In your statement, you spoke about the need to have an energy transition plan. Can you please tell me why such a plan is necessary?

I also have a question about your green loans. Green loans are given to finance green projects. Apart from that, how are they different to traditional commercial loans, whether it be in terms of conditions or interest rates?

[*English*]

Ms. Christine Bergeron: Thank you.

In terms of aggressive transition plans, our perspective is that we need to act, and the data shows that we need to act. We think it's important to be very clear on having objectives that will collectively get us to net zero and to drop emissions.

We could put a target of 20/80 instead of 20/40. Certainly, when that is the case, people tend to work to that target. Our view is to bring it in and to do everything we can to meet that. The view is it's based on data and trying to achieve that.

With respect to green projects and how we look at terms and conditions, or pricing, again, we typically price for risk. As was said, I believe, in the previous panel, it's difficult to look forward for risks that we don't fully understand versus looking back at traditional risks that we are used to.

We haven't officially landed to say if we do this new product we will definitely drop a price or term by a certain amount, because we are still trying to understand what those broad risks are, but we are trying to make it helpful to members, because they do want to take these actions. We are working with them to understand what levers actually matter to them the most. It may or may not be pricing. It may be something else.

That's how we respond to our membership. We want to understand what levers we can pull ultimately to see more of these green projects or financing get in place.

● (1300)

The Chair: Thank you, Mr. Ste-Marie.

Mr. Blaikie, you have two and a half minutes.

Mr. Daniel Blaikie: Thank you very much.

It's certainly my hope, and it's typical around here at the conclusion of a study, that the committee will write a report and make recommendations to the government based on what it's heard. I'm curious to know whether there are components that you think should be added to Canada's regulatory framework and that you would like to see this committee recommend to government when it comes to managing climate risk better in our financial sector, and the role that financial institutions can play in helping to mitigate more general climate risk.

Ms. Christine Bergeron: I would say that the more we can continue to properly value and treat the risks of climate within financial models, which is difficult precisely because it's forward-looking, then the more we will see a true step change in our ability to meet net-zero targets and will also ensure that people are not left behind in that transition. That's very important.

I don't have a specific regulatory recommendation for you, but certainly transparency and standardization are important.

Mr. Daniel Blaikie: Thank you very much for your time here today and your contribution to our study.

The Chair: Thank you, Mr. Blaikie.

Mr. Hallan, you have five minutes, please.

Mr. Jasraj Singh Hallan (Calgary Forest Lawn, CPC): Thank you.

Ms. Bergeron, when we talk about emissions and how to reduce, would it be reasonable, in your opinion, to say that replacing dirty dictator oil around the world with less carbon-intensive forms of energy would help the environment?

Ms. Christine Bergeron: In order to help the environment.... Maybe I'll actually step back and say that the purpose of helping the environment is to help people. It's about how we can live within our environment. Hence, what the data has shown is that dropping emissions matters, so in order to drop emissions, we do need to see more renewable energy in place.

Mr. Jasraj Singh Hallan: When we see energy from places outside Canada, where there are no regulations on how that energy is being created, and many human rights violations are taking place for that energy to be created as well, would it be fair to say that today Canada could be a leader in replacing that with less carbon-intensive energy?

Ms. Christine Bergeron: I think there's a great opportunity for Canada to continue to build new technology and new innovation that is low-carbon.

● (1305)

Mr. Jasraj Singh Hallan: Would you agree that a place like Germany, which came to Canada looking for LNG, should have received less carbon-intensive LNG from Canada instead of being turned away and going to Qatar, which has lower regulations and lower human rights regulations? Do you think Canada should have been able to replace that oil and liquid natural gas with less carbon-intensive Canadian product instead?

Ms. Christine Bergeron: My area of expertise is really not in different international jurisdictions, so I don't have a comment on that.

Mr. Jasraj Singh Hallan: In regard to loans, what is the default rate on green loans compared with conventional loans?

Ms. Christine Bergeron: In our portfolio we have not seen higher risk, if that is also part of the question, in terms of default by green loans. We've been tracking our impact loans now for many years, and we've not seen any difference in default rates.

Mr. Jasraj Singh Hallan: What percentage of green loans and conventional loans do you have?

Ms. Christine Bergeron: The overall percentage of what we track as triple-bottom-line assets and assets under administration is approximately 30%, give or take. It depends on the moment in time. However, our portfolio is also based on doing no harm. As I said, we don't have investments in oil and gas, so it's not specifically a ratio of “clean” to “dirty”, as some might think about it. It's what we track as having a positive impact in our community versus those that are perhaps considered more neutral.

Mr. Jasraj Singh Hallan: Can you table with this committee the actual number of loans that are conventional compared to green loans, the span of how many years that's across, and the amounts?

Ms. Christine Bergeron: It's a question of whether I can do that today or if we can follow up. I don't have that data at my fingertips.

Mr. Jasraj Singh Hallan: Perhaps you could table that as soon as possible for the committee.

Ms. Christine Bergeron: Certainly.

Mr. Jasraj Singh Hallan: Thank you.

How much time do I have?

The Chair: You're pretty much past your time. Thank you very much, Mr. Hallan.

Now we're going to our last questioner. We have a guest here. Welcome, Mr. Turnbull, to our committee. You seem very excited about this study.

Mr. Ryan Turnbull: Thanks, Chair, and thanks to Ms. Bergeron for being here. It's great to see you. I have always admired the work Vancity does as a credit union, but also as a community investment bank.

Obviously we know credit unions play a huge part and that their community lending model and the way they do things is quite different from how some of our large financial institutions do them. That has shone through in your remarks today. I want to acknowledge you for that.

I wanted to get back to a comment you made in your opening remarks about how we can't rely on the same modes of capital allocation. I know that Vancity, both in social impact investment but also in green or climate finance, has been doing remarkable work, and is innovating. I think you're trying to get to a “yes” on every deal that comes before you where you see a positive impact on society and the planet.

What are you doing to really innovate within your lending that is making a difference?

Ms. Christine Bergeron: Thank you.

There are several things that we continue to improve upon, because certainly we're constantly learning.

The first is actually creating more feedback mechanisms to enable us to hear from members as to what is working and what is not. That's typically how we have innovated in the past.

We continue to put pilot programs out and look to collaborate. How can we work with provincial governments, municipal governments, other groups and also a small business owner to think about how there are many different pockets of programs and money? How can those come together to make us think differently about the lending that we do? That's also about innovating. Many would not call it innovation, but by thinking differently, which is innovation, around risk and what that looks like and what the time frames are, we can, perhaps, price differently if that's what the risk indicators demonstrate.

We are also trying as much as we can to bring in different voices. Traditionally, there have been more male voices, for example, in capital allocation, broadly. We're trying to ensure that we look across our organization, from a gender perspective, for more broad diversity, and that we have that at all levels of the organization.

● (1310)

Mr. Ryan Turnbull: Thanks very much for that. It's great to hear about the way you're innovating or thinking differently.

In terms of your involvement in the sustainable finance action council, I know Vancity sits on that and is actively engaged. What is your assessment of the contributions that the taxonomy on green and transition investment will make to our financial system? Can you speak to the value of that taxonomy in terms of lending credibility to our system here in Canada?

Ms. Christine Bergeron: We think it is important to have common language to, again, have standardization and for consumers to have trust in what we are going to call or not call green. I believe there was previous discussion on greenwashing. On the one hand, consumers are very aware, and on the other hand, it's very difficult for them to wade through the noise, so we think there's value in standardization.

We also think that many of the next steps with respect to taxonomy are important. I know that governance is one of the many next steps to come.

Mr. Ryan Turnbull: That's great. Thank you. I have one last question.

In terms of mandatory climate-related disclosures, I know there's considerable movement towards taking a holistic approach or an all-of-economy approach to that and having mandatory disclosures. Do you feel that's really needed? For a financial institution, I'm certain that decision-useful data must be hard to get in an economy in which there's no mandatory disclosure for climate-related risk, so are you an advocate for mandatory disclosures?

Ms. Christine Bergeron: We believe that disclosure is important and that transparency is important. We also know that in order to get there, to do that throughout, you have to start even with small business owners, who are going to need resources and time to get there.

The Chair: We thank you, Ms. Bergeron.

Thank you, Mr. Turnbull.

The bells are ringing for a vote, members.

Ms. Bergeron, we really want to thank you for bearing with us, for giving us the flexibility, for staying with us past the hour and giving us the full hour of your time. Thank you for your testimony. That will help inform this study. On behalf of all the members of the finance committee, I will say that we really appreciate it. Thank you.

Ms. Christine Bergeron: Thank you.

The Chair: Have a great day. Thanks.