Pension Investment Association of Canada
Association canadienne des gestionnaires de caisses de retraite

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Saskia Tolsma
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BCFSA
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Via e-mail to info@bcfsa.ca

Dear Ms. Tolsma,

Re: Natural Catastrophes and Climate-Related Risks: Managing Uncertainty and Building Resilience in the Financial Services Discussion Paper ("Discussion Paper")

This letter provides comment from the Pension Investment Association of Canada (PIAC) on the questions posed to pension plan administrators by the British Columbia Financial Services Authority (BCFSA) in the consultation discussion paper on *Natural Catastrophes and Climate-Related Risks*.

PIAC has been the voice for Canadian pension funds since 1977 in matters related to pension investment and governance. Our mission is to promote sound investment practices and good governance for the benefit of plan sponsors and beneficiaries. PIAC's members manage over $2.8 trillion of assets on behalf of millions of Canadians.

PIAC's BC membership includes 12 pension plan organizations with assets ranging from $500 million to over $220 billion.

PIAC believes, because of the potential for climate change and broader ESG factors to have financial impacts on plan investments now and well into the future, it is within the scope of our members' role as fiduciaries, as currently defined, to consider these in their investment processes and stewardship activities.

Summary of PIAC View

PIAC welcomes the work that BCFSA has done to assist the financial sector to identify, measure, and manage physical and transition risks related to climate change in their investment portfolios.

PIAC supports the view that scenario analysis and stress testing can provide useful incremental information for assessing climate risk, in certain circumstances, for the appropriately sized pension plan. However, these analyses require a commitment of resources – either through internal expertise or external service providers – that may be unsustainable for our BC members with a small asset base and limited staff. Moreover, smaller plans often implement their portfolios through external managers, which can cause data transparency issues.

PIAC would support a reasonable expectation for plan managers to disclose and discuss their plan and rationale for managing climate risk, including their policy on these disclosures from their external managers.

Questions for Pension Plans

> *BCFSA proposes that for transition risk, the standardized scenarios developed by OSFI/BoC could be used to help inform the scenario analysis conducted by B.C. pension plan administrators to ensure comparability, with necessary modifications that reflect unique characteristics of the B.C. environment. BCFSA acknowledges that not all pension plans have the internal capacity to conduct a full analysis.*

- *What are the key considerations and challenges for pension plans to identify, measure, and manage physical and transitions risks?*
- *What are your views on scenario analysis and stress testing to assess a pension plan's exposure to physical and transition risks in its investment portfolio?*
- *What should BCFSA consider as part of our approach to scenario analysis and stress testing for pension plan administrators?*

PIAC members recognize that climate change poses significant financial risks and opportunities for financial institutions (FIs), making scenario analysis a critical tool for risk management and strategic planning. Scenario analysis helps FIs to assess the potential impacts of different climate change scenarios and to plan for a variety of outcomes. We believe that pension plan administrators should be focused on key financial impacts associated with the physical risks from climate change (e.g., extreme weather events and fires) and transition risks (e.g., policy changes, technology developments), to the degree relative to their size, investment portfolio, and investment strategies.

Climate change scenario analysis can be integrated into risk management frameworks and allow an FI to quantify the potential financial impacts in various sectors and industries over time. The resulting assessments can be integrated with strategic planning and investment decision making to improve financial results, increase portfolio resilience to climate change impacts and find new investment opportunities in a low carbon economy. Additionally, general education on climate risk impacts to investment portfolios (asset class level, geographic, etc.) by service providers may be encouraged to assist fiduciaries in their understanding of how climate risk may impact their strategic asset allocation. This may be done at relatively low cost, using asset consultants without looking through underlying holdings.

The limitations of scenario analysis must also be acknowledged. Scenarios are not forecasts and cannot be used to predict what will happen; rather, they provide a range of possible outcomes to consider. Expertise and judgement to interpret the scenarios and assumptions is required. Results can include inconsistencies in sectors where data is lacking. Research on the impact of climate change continues to evolve, and continuous review is needed.

While PIAC agrees with the utility of conducting climate scenario analysis and stress testing, the capacity for pension plan administrators to do so must be considered by the BCFSA and should not be overestimated. Most pension plans have minimal in-house investment resources and rely on multiple external investment managers and consultants to invest their assets in a variety of asset classes.

PIAC believes that any BCFSA requirements for pension plans related to climate risk should remain principles based.

It appears that OSFI is not imposing B-15 guidelines on climate risk management for federally regulated pension plans for the time being. Therefore, BCFSA's proposal would be an additional burden unique to plan administrators in B.C. We also believe that BCFSA should reconsider prescribing a specific scenario to pension plan administrators.

The International Financial Accounting Standards (IFRS) for climate related disclosure, launched this year by the International Accounting Standards Board (IASB), includes scenario analysis in its expectations for FIs. However, the IFRS do not specify which scenarios must be used and affords the organization the flexibility to determine which approach and scenarios are most applicable to its circumstances. We would recommend that this discretion be maintained for pension plan administrators in BC.

> *BCFSA is proposing that pension plan administrators increase disclosures in alignment with each of the TCFD pillars of governance, strategy, risk management and metrics and targets. These disclosures should be reliable, verifiable, and objective which will may eventually require third-party assurance.*
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> • *Should disclosures be voluntary or mandatory? Why?*

• *Should disclosures be standardized, or should pension plans have discretion to decide for themselves how to report?*

• *What are the challenges associated with meeting disclosure requirements in alignment with TCFD?*

PIAC recognizes that expectations for pension plans to report in line with the TCFD recommendations are increasing, as are recommendations for mandatory climate related disclosure. While some PIAC members – namely the largest pension plans in Canada – have been preparing TCFD reports for several years, it is a lengthy and expensive exercise which requires significant resources.

Any climate-related metrics disclosed by pension plans will only be as sound as the disclosure from the entities in which they invest, or pension plans' capacity to either purchase additional data and/or develop adequate internal estimation methodologies. While the quality of climate-related disclosures is improving, there remain significant data gaps, especially in private assets where we face poor and unverifiable data. Estimation methodologies for carbon emissions can be inconsistent and opaque and there are competing taxonomies.

Given these conditions, it would be extremely challenging for most pension plan administrators to report aggregated climate metrics and targets as recommended by the TCFD and proposed by BCFSA. It may be reasonable, however, to expect plan administrators to discuss their approach to climate risk management with their beneficiaries and what they expect from their asset managers in this regard. This disclosure is also in line with TCFD.

Thank you for your consideration. We look forward to continued and direct engagement and collaboration to create an effective regulatory environment that helps support and grow the number of Canadians achieving financial security in retirement.

Yours truly,

Peter Waite

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