

# OSFI B-15 Playbook



- 03 Executive Summary**
- 03 Disclaimer**
- 03 Introduction to Climate Risk Regulations**
- 06 The Playbook's 5 Phases**
  - 07 Understand Phase**
  - 08 Analysis Phase**
  - 11 Mobilization Phase**
  - 13 Execution Phase**
  - 21 Evaluation Phase**
- 22 Overall Recommendations**
- 22 Other Recommendations**
- 23 Resources: Referenced in Playbook**
- 24 Updates from Bill C-59: The Fall Economic Statement Implementation Act**

## 1. Executive Overview

This Playbook is a resource developed by the Canadian Lenders Association's Sustainable Finance Roundtable. It is meant to provide high-level guidance leveraging the expertise of members in response to the finalization of the OSFI B-15 Climate Risk Guideline.

The Playbook aims to inform members on how they should consider, act upon, and formalize a best practice response to regulatory expectations around climate risk management. It outlines best practices across five phases to help members effectively comply with these requirements. This is an evergreen resource, regularly updated to reflect new developments.

## 2. Disclaimer

This Playbook is intended as a general guide for members of the Canadian Lenders Association's Sustainable Finance Roundtable in understanding and responding to climate risk regulations. **It is not a substitute for professional legal, regulatory, or financial advice.** While every effort has been made to ensure the accuracy and relevance of the information provided, the Canadian Lenders Association does not guarantee its completeness or applicability to every situation.

## 3. Introduction to Climate Risk Regulations

Climate change poses significant risks and opportunities that can impact the safety and soundness of the wider financial system. Consequently, there are growing expectations from regulators globally for Financial Institutions (FIs) to understand and address the effect of climate-related risks on their strategy, business model and operations.

Below summarizes some key actions taken by Canadian regulatory bodies around this area.

### **Office of Superintendent of Financial Institutions (OSFI)**

In March 2023, OSFI released the B-15 Climate Risk Management guideline, applicable to all Federally Regulated Financial Institutions (FRFIs) except foreign bank branches. The Guideline takes effect fiscal year-end 2024 for Domestic Systemically Important Banks (DSIBs) and Internationally Active Insurance Groups (IAIGs) and fiscal year-end 2025 for all other FRFIs.

With the B-15 guideline, OSFI expects FRFIs to achieve the following three outcomes:

- Understand and mitigate against potential impacts of climate-related risks to its business model and strategy.
- Have appropriate governance and risk management practices to manage identified climate-related risks.
- Remain financially resilient through severe yet plausible climate risk scenarios and operationally resilient through disruption due to climate-related disasters.

### **Financial Services Regulatory Authority of Ontario (FSRA)**

In its proposed Operational Risk and Resilience guidance, FSRA indicated it would consider integrating Environmental, Social, and Governance (ESG) goals into its regulatory and supervisory frameworks, with the potential for additional guidance to address climate-related risks. In its April 2022 risk-based supervisory framework for Credit Unions (CUs), FSRA indicated that ESG risks, particularly climate-related risks, will be considered when assessing the resilience of CUs.

### **Autorité des marchés financiers (AMF)**

In July 2024, the AMF issued an updated Climate Risk Management Guideline, effective immediately upon publication. The guideline sets out AMF expectations for FIs across six key themes – (1) Governance, (2) Integrated Risk Management, (3) Climate Scenario and Stress Testing, (4) Capital and Liquidity Adequacy, (5) Fair Treatment of Consumers and (6) Climate-Related Financial Risk Disclosures.

### **British Columbia Financial Services Authority (BCFSA)**

In July 2024, the British Columbia Financial Services Authority (BCFSA) released a summary document on natural catastrophes and climate-related risks which also covered guidance and regulatory invention BCFSA could explore. As the BCSFA included climate-related risk management expectations within its regulatory framework, CUs are expected to start aligning risk management practices to these expectations.

### **Central 1 (serves CUs in British Columbia and Ontario)**

Central 1 is reviewing climate-related risks and opportunities within its service framework for member credit unions. The organization is monitoring developments and may propose recommendations by 2025.

### **Others**

Saskatchewan's Credit Union Deposit Guarantee Corporation, Alberta's Credit Union Deposit Guarantee Corporation, and Manitoba's Financial Institutions Regulation Branch are all exploring the integration of climate risk considerations into its supervisory framework for credit unions. They are currently in the research and consultation phase, with potential guidelines to be developed by 2025.

## 4. The Playbook's 5 Phases





## 4.1 Understanding Phase

### 4.1.1 Understand

#### Review requirements:

Thoroughly review the regulatory guidelines regarding climate-related risks. Ensure relevant stakeholders in the FI are familiar with the guidelines and their implications. This includes providing training to the Board and senior management on the regulatory expectations and potential impacts of climate-related risks.

#### Mapping exercise:

Conduct a mapping exercise to compare disclosure-related expectations with other sustainability reporting requirements that may impact the FI directly or indirectly. This would help identify any overlaps and additional obligations.

#### Regulatory guideline matrix:

Create a regulatory guideline matrix for climate risk analysis and financed emissions calculations. This involves categorizing the relevant frameworks and regulations that impact banking institutions both in Canada and globally. The matrix will cover key aspects such as the regulatory body, framework or guideline, the scope of climate risk analysis, financed emissions calculation requirements, and the implementation status.

Region	Regulatory Body	Framework/ Guidelines	Climate Risk Analysis	Financed Emissions Calculations	Links
Canada	Office of the Superintendent of Financial Institutions (OSFI)	Guideline B-15	Requires climate risk management, including scenario analysis, governance, risk management, and disclosures	Encourages calculation and reporting of financed emissions, aligned with TCFD and PCAF	<a href="#">Link</a>
Canada	Canadian Securities Administrators (CSA)	National Instrument 51-107	Requires climate-related disclosures, including material climate-related risks	Financed emissions calculation encouraged, aligned with international standards like TCFD	<a href="#">Link</a>
European Union	European Central Bank (ECB)	ECB Guide on Climate-Related and Environmental Risks	Requires banks to assess climate risks, conduct stress testing, and integrate findings into their strategy	Financed emissions calculation required as part of broader disclosure requirements	<a href="#">Link</a>
United Kingdom	Prudential Regulation Authority (PRA)	Supervisory Statement 3/19	Requires banks to assess and manage climate-related financial risks, including scenario analysis	Encourages financed emissions calculation, especially for banks with significant climate exposure	<a href="#">Link</a>



## 4.2 Analysis Phase

### 4.2.1 Comprehensive Assessment of Physical and Transitions Risks

#### Materiality assessment:

Conduct a comprehensive assessment to identify and understand the physical and transition risks relevant to the FI's transactions, operations, market context, asset classes and key sectors in its portfolio.

#### Assessment results:

The assessment should provide a view of potential material impacts of climate-related risks on the FI's short-term and long-term strategic, capital, and financial plans.

### 4.2.2 Build a compliance roadmap

#### Gap analysis:

Conduct a high-level gap analysis to evaluate the alignment between existing processes and policies, and regulatory expectations.

### Conducting a materiality assessment

Below is a step-by-step guide to conducting this comprehensive assessment, incorporating relevant banking regulatory requirements.

#### 1. Understanding Regulatory Expectations

Regulatory bodies have established guidelines and expectations for climate risk management. OSFI's Guideline B-15, outlines expectations for climate risk management, emphasizing the need for FRFIs to integrate climate-related risks into their governance, strategy, and risk management frameworks.

#### Key Points to Consider:

- **Governance:** FRFIs must ensure that their board and senior management are adequately informed about climate-related risks and have a clear oversight structure in place.
- **Risk Management:** FRFIs should identify, assess, and manage physical and transition risks as part of their overall risk management process.
- **Disclosure:** FRFIs are expected to disclose their climate-related risks in line with established frameworks like the Task Force on Climate-related Financial Disclosures (TCFD).

#### 2. Identify Physical and Transition Risks

**Physical Risks** refer to the risks associated with the physical impacts of climate change, such as extreme weather events, rising sea levels, and changes in precipitation patterns.

**Transition Risks** are those related to the



## Roadmap build:

Develop a compliance roadmap of actions needed to meet these expectations. Below is an overview of key activities for doing this that can be customized as needed:

### Project Planning

- **Project Initiation:**  
Define the scope and objectives of the climate risk roadmap project.
- **Stakeholder Identification:**  
Identify all stakeholders, including internal teams and external partners.
- **Resource Allocation:**  
Identify and allocate necessary resources (personnel, tools, budget).

### Developing Roadmap

- **Roadmap Design:**  
Design the structure and content of the climate risk roadmap.
- **Assign Roles and Responsibilities:**  
Define specific roles and responsibilities for each part of the roadmap.
- **Timeline and Milestone Development:**  
Develop a detailed timeline with key milestones for the implementation of the roadmap.

### Roadmap Finalization and Approval

- **Draft Review and Revision:**  
Review the draft roadmap and make necessary revisions based on feedback.
- **Final Approval:**  
Submit the final roadmap for approval by senior management/board.

transition to a lower-carbon economy, including regulatory changes, market shifts, technological advancements, and reputational risks.

#### Assessment Steps:

##### 1. Sector and Geographic Analysis:

- **Sectoral Risk:** Evaluate the vulnerability of key sectors in your portfolio to climate change. Sectors such as energy, agriculture, real estate, and transportation may face higher risks. Consider the top 10 emitting industries in Canada and begin there for greater risk/exposure.
- **Geographic Risk:** Assess the geographic distribution of assets and operations. Consider regions prone to physical climate impacts like floods, hurricanes, or wildfires.

##### 2. Asset Class Vulnerability:

- Different asset classes (e.g., real estate, equities, bonds) may be impacted differently by physical and transition risks. For example, real estate in coastal areas may be more susceptible to physical risks, while equities in high-carbon sectors may face transition risks.

##### 3. Market Context:

- Evaluate how market trends and regulatory changes may impact different sectors. For instance, increased regulation on carbon emissions could pose transition risks for heavy industries.

##### 4. Counterparty Risk:

- Assess the exposure of counterparties to climate risks. Counterparties with high emissions or those operating in vulnerable sectors may represent higher risk.

### 3. Quantitative and Qualitative Analysis

Conduct a mix of quantitative and qualitative analyses to understand the potential financial impact of identified risks.

#### 1. Scenario Analysis:

- Use climate-related scenarios (e.g., a 1.5° or 2°C scenario) to model potential impacts on your portfolio. This includes assessing how different temperature increases might affect asset values and revenue streams through changes to extreme weather conditions that will directly impact probability of loss modelling.

### Roadmap implementation planning ·

- **Process for Monitoring Progress:**  
Establish a monitoring and reporting process to track the progress of the roadmap implementation.
- **Communication Strategy:**  
Develop a communication plan to ensure transparent communication with all stakeholders.
- **Training and Capacity Building:**  
Plan and execute training sessions for staff involved in the implementation.

#### **2. Stress Testing:**

- Perform stress tests to determine how physical and transition risks might affect the FRFI's financial position. This helps in understanding potential losses under adverse climate scenarios.

#### **3. Qualitative Risk Assessments:**

- Engage with sector experts, stakeholders, and industry reports to gain qualitative insights into potential risks that may not be fully captured by quantitative models.

#### **4. Results of analysis:**

- Use results of analysis to determine materiality of climate-related risks based on pre-established thresholds. These can be qualitative (such as clear definition of High-Medium-Low scales) or quantitative (such as thresholds on capital, liquidity or other risk metrics). Once material risks have been identified and assessed, integrate them into the FI's broader risk management framework.

## 4.2.2 Build a compliance roadmap

**Gap analysis:** Conduct a high-level gap analysis to evaluate the alignment between existing processes and policies, and regulatory expectations.

**Roadmap build:** Develop a compliance roadmap of actions needed to meet these expectations. Below is an overview of key activities for doing this that can be customized as needed:

### Project Planning

- **Project Initiation:**

Define the scope and objectives of the climate risk roadmap project. ·

- **Stakeholder Identification:**

Identify all stakeholders, including internal teams and external partners. ·

- **Resource Allocation:**

Identify and allocate necessary resources (personnel, tools, budget).

### Developing Roadmap

- **Roadmap Design:**

Design the structure and content of the climate risk roadmap. ·

- **Assign Roles and Responsibilities:**

Define specific roles and responsibilities for each part of the roadmap. ·

- **Timeline and Milestone Development:**

Develop a detailed timeline with key milestones for the implementation of the roadmap.

### Considerations for conducting a gap analysis against OSFI's B-15:

There are 5 Governance and Risk Management Principles that cover OSFI's Expectations.

1. Have appropriate governance and accountability structures in place to manage climate-related risks. Senior Management has overall accountability for the FRFI's climate risk management.
2. Incorporate the implications of physical risk from climate change and the risks associated with the transition to a low-greenhouse gas (GHG) economy to the FRFI in its business model and strategy.
3. Manage and mitigate climate-related risks in accordance with the FRFI's Risk Appetite Framework.
4. Use climate scenario analysis to assess the impact of climate-related risks on its risk profile, business strategy and business model.
5. Maintain sufficient capital and liquidity buffers for climate-related risks.

Understand the specific requirements of each of these principles. Capture them in a checklist, these requirements represent what an FRFI needs to do. It will be the criteria upon which OSFI will evaluate an FRFI's response to B-15.

Six Climate-Related Disclosure Principles that cover OSFI's Expectations:

- Disclose relevant information.
- Disclose specific and comprehensive information.
- Disclose clear, balanced and understandable information.
- Disclose reliable and verifiable information.

### Roadmap Finalization and Approval ·

- **Draft Review and Revision:**  
Review the draft roadmap and make necessary revisions based on feedback. ·
- **Final Approval:**  
Submit the final roadmap for approval by senior management/board.

### Roadmap implementation planning ·

- **Process for Monitoring Progress:**  
Establish a monitoring and reporting process to track the progress of the roadmap implementation.
- **Communication Strategy:**  
Develop a communication plan to ensure transparent communication with all stakeholders. ·
- **Training and Capacity Building:**  
Plan and execute training sessions for staff involved in the implementation.

- Disclose information appropriate for its size, nature and complexity.
- Disclose information consistently over time.

Consider the implications of these requirements. Consider how to address the requirements from both an immediate and ongoing manner. This is how an FRFI is expected to respond and disclose climate-related information. Capturing disclosure principles in a checklist better helps companies identify, understand, assess, and manage climate-related risks. These should be guiding principles everyone involved should be thinking about. Again these requirements represent the criteria upon which OSFI will evaluate FRFI's response to B-15.



## 4.3 Mobilization Phase

### 4.3.1 Project Management

**Breakdown roadmap:**

Translate the compliance roadmap into a detailed implementation plan outlining specific actions, roles and responsibilities, clear timelines and key milestones. Ensure sufficient resources are allocated to effectively execute the implementation plan.

**Launch implementation:**

Begin implementation of the roadmap according to the established timeline.

**Ongoing Monitoring and Reporting:**

Continuously monitor progress, report to stakeholders, and adjust as needed.

**Post-implementation Review:**

Conduct a post implementation review to evaluate success and identify lessons learned.

### 4.3.2 Data collection and analysis

**Data needs analysis:**

Conduct a climate risk data needs analysis which considers risk management needs, business strategy and disclosure requirements. Understand the inherent and underlying data points necessary for higher quality calculations such as outstanding value, value-add origination of loan, and asset-specific data points such as location or square footage.

### **Data strategy:**

Have a climate data strategy. It might be tactical at first, but it should be aimed at developing a process that can be improved and repeated.

### **Data collection:**

Collect, and utilize reliable, timely, and accurate data relevant to climate-related risks such as geophysical location data, GHG emissions data and other industry specific criteria. When utilizing third-party data providers, FIs should sufficiently understand the embedded data, methodology, assumptions and limitations.

### **Tools and technologies:**

Implement relevant tools and technologies to enhance understanding of data, methodologies, and limitations used for assessing climate-related risks. This includes developing a climate risk data catalog to monitor the closure of data gaps as well as adopting sustainability reporting software to streamline data collection and reporting.

### **Data Quality:**

Aim for a process to continuously improve the climate data reliability, completeness, accuracy and relevance. This can include utilizing the Partnership for Carbon Accounting Financials (PCAF) scoring system for GHG emissions calculations to establish hierarchies on quality of emissions data.



## 4.4 Execution Phase

### 4.4.1 Governance

**Board oversight:**

The board should have explicit responsibility for overseeing climate-related risks. This includes ensuring that climate risks are integrated into the overall risk management framework. This is of critical importance as buy-in needs to be obtained from top-down. Climate risks should be a regular topic of discussion at the board level. Boards should include members with expertise in climate-related risks or provide regular training to enhance understanding of these risks and their impact on the institution

**Senior management accountability:**

Appoint a senior executive (e.g., Chief Sustainability Officer or a dedicated Climate Risk Officer) to lead climate risk management and ensure it is embedded across the institution. Senior management, including the Chief Risk Officer (CRO) and Chief Financial Officer (CFO), should be accountable for implementing climate risk strategies and ensuring compliance. Senior management should be responsible for deploying meaningful and reasonable climate risk processes related to sustainability priorities that are embedded within corporate strategy. Consider whether and how senior management compensation policies and related practices should incorporate climate-related risk considerations.

**Governance structures:**

Establish appropriate governance structures and control functions to oversee climate risk management. An organizational structure should depict accountability and describe activities and responsibilities. The focus is oversight and facilitating integration by establishing ownership. It is essential to identify and evaluate each component of the oversight structure to ensure appropriate governance.

**Policies and Procedures:**

Develop and implement policies that address climate-related risks, ensuring that they are integrated into the bank's overall risk management practices. This includes setting clear targets and metrics for managing these risks.

## **4.4.2 Incorporate climate-related risks into business model and strategy**

**Business model adaptation:**

Integrate the short-, medium- and long-term implications of climate-related risks into the business model and strategy. FIs should adjust their business model to mitigate identified risks and leverage opportunities. This includes developing new products and services that support the transition to a low-GHG economy, such as green bonds, sustainability-linked loans, or renewable energy project financing.

**Portfolio management:**

Incorporate climate risks into investment and lending decisions. This might involve reducing exposure to high-carbon industries and increasing investments in low-carbon technologies and sectors that are resilient to physical climate risks.



### **Fair treatment of customers:**

FI should consider climate-related risks into the entire product life cycle. FIs should obtain and integrate information obtained as part of client ongoing due diligence into the way it designs, delivers and withdraws products and services.

### **Climate transition plans:**

Develop and implement a Climate Transition Plan aligned with the business plan and strategy, assessing achievability under different climate-related scenarios. A strong Climate Transition Plan needs to include a roadmap with prioritization. Everything cannot be addressed at once. The transition plan can be phased but it must have defined deliverables, and it must be executable. For further guidance, refer to

- UK TPT guidance for banks <https://transitiontaskforce.net/sector-guidance/>
- GFANZ guidance for financial institutions [1] <https://www.gfanzero.com/our-work/financial-institution-net-zero-transition-plans/>

## **4.4.3 Incorporate into Risk Management Framework (RMF)**

**Risk Appetite Framework:** Define risk appetite for climate-related risks and ensure it aligns with the overall risk strategy.

- Define Specific Climate-Related Risk Thresholds: Develop and articulate clear thresholds for climate-related risks within the RAS. This might involve setting limits on exposure to certain sectors that are highly carbon-intensive, such as fossil fuels, or sectors vulnerable to physical climate impacts like agriculture or coastal real estate.
- Incorporate Climate-Sensitive Metrics: Integrate climate-sensitive metrics into the overall risk appetite. For instance, the bank could set a maximum allowable level of financed emissions (carbon footprint of loans and investments) or limit the proportion of the loan book exposed to regions or industries at high risk of climate events

- Alignment with Strategic Goals: Ensure that the climate-related components of the RAS are aligned with the bank's broader sustainability goals, such as commitments to net-zero emissions or supporting the transition to a low-carbon economy.
- Scenario-Based Calibration: Calibrate the risk appetite based on a range of climate scenarios, from best-case to worst-case. This ensures that the RAF is robust and adaptable to different potential futures.
- Regular Review and Adjustment: Implement a process for regularly reviewing and adjusting the RAF to account for new climate data, evolving regulatory expectations, or changes in the bank's strategic objectives. This could be part of an annual risk review cycle or triggered by significant external developments.

**Enterprise risk management:** Integrate climate-related risks into their risk management framework as drivers of existing risk categories.

- Key risks: Establish processes to adequately identify, assess, prioritize and manage potential material impact of climate-related risks on key risk exposures e.g. operational risk, credit risks, market risks and liquidity risks.
- Internal control framework: Update internal control frameworks, compliance policies, and practices to reflect climate-related risks and assign clear roles and responsibilities for managing these risks.
- Risk mitigation strategies: Develop and implement risk mitigation strategies, such as diversifying the portfolio, investing in climate-resilient infrastructure, or engaging with clients to reduce their carbon footprint.

**Risk Metrics and limits:** Develop metrics and associated limits to measure and monitor climate-related risks

- Example of metrics: This can include Carbon Intensity of the Portfolio (Amount of CO2 emissions per unit of financial exposure), Sectoral Exposure (Proportion of the loan portfolio exposed to high-risk sectors e.g., oil and gas, coal, heavy industry) and Geographical Exposure (exposure to regions prone to climate risks like floods, hurricanes, or droughts).

- Integrate with Existing Risk Limits: Align these climate-specific metrics with existing risk limits. For example, the FI might set lower credit limits for sectors or regions that are particularly vulnerable to climate change, ensuring that overall exposure remains within acceptable levels.
- Dynamic Adjustment of Limits: Consider implementing a dynamic approach to adjusting limits as more data and insights on climate risks become available. This could involve periodically reassessing risk limits based on new climate scenarios or regulatory guidance.

#### 4.4.4 Climate scenario analysis and stress testing

**Determine scenarios:** Undertake climate scenario analysis to assess resilience of FI's business model, considering plausible and relevant scenarios over various time horizons. FIs should simulate the impact of various climate-related scenarios on the bank's financial position. Scenarios could include:

- **Acute Physical Risks:** Extreme weather events like hurricanes or floods.
- **Chronic Physical Risks:** Long-term changes such as rising sea levels or desertification.
- **Transition Risks:** Regulatory changes, shifts in consumer preferences, or technological advancements that impact carbon-intensive industries.

#### Building climate scenario analysis capabilities

Use climate scenario analysis to assess the impact of climate-related risks on its risk profile, business strategy and business model

##### 1. Understanding Climate Scenarios:

- **Scenario Selection:** The bank should select a range of plausible climate scenarios. These scenarios are developed by organizations like the Network for Greening the Financial System (NGFS) and include variables such as temperature rise, policy changes, and technological developments.
- **Time Horizons:** The bank should assess these scenarios over different time horizons (short, medium, and long term) to understand the potential impacts over time.

##### 2. Identifying Relevant Risks:

- **Physical Risks:** These include the direct impact of climate change, such as more frequent and severe weather events, rising sea levels, and changes in temperature. The bank should evaluate how these risks might affect its assets, operations, and the broader economy.

**Scenario analysis methodology:**

Consider both physical and transition risks and understand the methodology and approaches used in scenario analyses. Be aware that certain approaches may involve specific assumptions, such as the pace of policy implementation, technological advancements, economic impacts, or the frequency and severity of physical climate events. These assumptions should be critically evaluated for their relevance and potential impact on the analysis outcomes. There should be robust governance and documentation for any assumptions, judgements and proxies adopted.

**Results:** Use the results of these stress tests to inform the RAF. If a particular scenario indicates significant potential losses, the RAF should reflect a more conservative approach to risk-taking in related areas. Incorporate results from climate scenario analysis in reporting to Board and senior management

**Set Contingency Plans:** Based on stress test outcomes, develop contingency plans to mitigate potential impacts. This could involve setting aside

**3. Quantitative and Qualitative Analysis:**

- **Risk Quantification:** The bank should use quantitative models to estimate potential losses under different climate scenarios. This might include stress testing the bank’s loan portfolio, assessing the value-at-risk (VaR), or modeling the potential impact on capital and liquidity.
- **Qualitative Assessment:** In addition to quantitative analysis, the bank conducts qualitative assessments to understand broader strategic implications. This includes evaluating potential shifts in customer behavior, regulatory developments, and reputational risks.

**4. Integration into Risk Management Framework**

- **Risk Identification:** The findings from the scenario analysis will help the bank to identify specific climate-related risks that need to be managed within its existing risk management framework.
- **Capital Planning:** The bank should incorporate the results into its capital planning process, ensuring that it holds sufficient capital to cover potential losses from climate risks.
- **Portfolio Management:** The bank may adjust its investment or lending portfolio to reduce exposure to high-risk sectors or regions and increase investments in more resilient or sustainable assets.

**5. Informing Business Strategy**

- **Strategic Decision-Making:** The insights gained from climate scenario analysis should inform the bank’s long-term

additional capital, adjusting the risk appetite, or pre-emptively reducing exposure to high-risk areas.

**Regulatory exercises:** Conduct climate scenario exercises and report results to OSFI on a periodic basis as required by the regulatory guidelines going forward.

business strategy. For example, the bank might decide to divest from carbon-intensive industries, invest in green technologies, or develop new financial products that support the transition to a low-carbon economy.

- **Product and Service Development:** The bank may develop new products and services, such as green bonds or sustainability-linked loans, that align with the climate scenarios and support its strategic goals.

## 4.4.5 Capital and liquidity adequacy

### Capital planning:

Incorporate climate-related risks into the Internal Capital Adequacy Assessment Process. Assess the impact of material climate-risk drivers, allocating capital, as required, based on outcomes of climate scenario analysis and stress testing.

### Liquidity planning:

Assess the impact of climate-related risk drivers on liquidity risk profile and integrate climate-related stress events when evaluating liquidity buffers

## ECL Modelling

Understanding financial implications to banks must include an understanding of potential credit losses as well as exposure to climate risk events. Modelling must extend beyond the probability of default percentages promised by OSFI. We have already covered climate risk scenario modelling and analysis which is separate from ECL modelling.

### 1. Expected Credit Loss Model

- **Direct Integration:** Banks can directly integrate OSFI-provided PD percentages into their existing ECL models. This may involve recalibrating their models by adjusting the PD inputs to align with the figures provided by OSFI. This process includes:
  - Updating the model's PD parameters for various segments of the lending portfolio (e.g., retail, corporate, and specialized lending).
  - Ensuring that the PD inputs reflect the scenarios or conditions specified by OSFI, such as stressed economic environments or climate-related risks.
- **Model Validation:** After integration, the bank must validate the updated model to ensure that the ECL outputs remain accurate and reliable. This includes backtesting the model against historical data and performing sensitivity analysis to understand the impact of the new PD percentages on ECL.
- **Segmentation Update:** Banks might need to update how they segment their loan portfolios if OSFI's PD percentages are provided for specific risk classes or segments. This includes:
  - Reclassifying loans based on OSFI's guidance on risk

- Updating the ECL model to apply the appropriate PD percentages to each segment or classification.

- **Granularity Increase:** Increasing the granularity of the segmentation in the model can help ensure that OSFI's PD percentages are applied more precisely across different risk profiles within the portfolio.

## 2. Forward-Looking Information Integration

- **Incorporating OSFI's Guidance on Forward-Looking Factors:** If OSFI provides PD percentages that incorporate forward-looking information, banks should integrate these factors into their ECL models. This may include:

1. Updating macroeconomic forecasts and other forward-looking indicators in the model.
2. Ensuring that the model dynamically adjusts PD estimates based on changing conditions, as outlined by OSFI.

## 3. Communication and Disclosure:

- **Stakeholder Communication:** The bank uses the results of the scenario analysis to communicate with stakeholders, including investors, regulators, and customers, about its approach to managing climate risks.
- **Regulatory Compliance:** The bank should include the findings from its scenario analysis in its public disclosures.

## 4.4.6 Monitoring and reporting

**Internal reporting:** Incorporate climate-related risks into internal monitoring and reporting processes to assess business performance and risk management effectiveness. Develop metrics and Key Risk Indicators (KRIs) that would be regularly reported to Board and Senior Management

**Internal controls on reporting:** Develop capabilities to aggregate climate risk data and report on climate-related exposures to support strategic planning and risk management. Best practice would be to consider this auditable from a SOX-like control perspective.

**Disclosures:** Ensure compliance with relevant regulations by disclosing climate-related risks and opportunities transparently. Follow best practices such as the TCFD framework for consistent and comparable disclosures which are embedded as part of key considerations within OSFI's B-15 regulatory construct.

- Disclosure Content: Include information on governance, strategy, risk management, metrics, and targets related to climate risks.
- Frequency: Ensure disclosures are updated regularly, reflecting changes in the risk environment and regulatory expectations.
- Quality: Ensure transparency, clarity and accuracy in climate-related disclosures and regulatory reporting.





## 4.5 Evaluation Phase

### 4.5.1 Continuous Improvement

#### **Board oversight:**

The board should have explicit responsibility for overseeing climate-related risks. This includes ensuring that climate risks are integrated into the overall risk management framework. This is of critical importance as buy-in needs to be obtained from top-down. Climate risks should be a regular topic of discussion at the board level. Boards should include members with expertise in climate-related risks or provide regular training to enhance understanding of these risks and their impact on the institution

#### **Senior management accountability:**

Appoint a senior executive (e.g., Chief Sustainability Officer or a dedicated Climate Risk Officer) to lead climate risk management and ensure it is embedded across the institution. Senior management, including the Chief Risk Officer (CRO) and Chief Financial Officer (CFO), should be accountable for implementing climate risk strategies and ensuring compliance. Senior management should be responsible for deploying meaningful and reasonable climate risk processes related to sustainability priorities that are embedded within corporate strategy. Consider whether and how senior management compensation policies and related practices should incorporate climate-related risk considerations.

## 5. Overall Recommendations

International Sustainability Standards Board (ISSB) IFRS S2 Climate-related disclosures

TCFD Recommendations

<https://www.fsb-tcf.org/recommendations/>

Comprehensive checklist

## 6. Other Readings

<https://www.risk.net/insight/risk-management/7958645/assessing-the-importance-of-liquidity-and-climate-risk-in-an-evolving-risk-landscape>

<https://www.bankofcanada.ca/wp-content/uploads/2021/11/BoC-OSFI-Using-Scenario-Analysis-to-Assess-Climate-Transition-Risk.pdf>

<https://www.unepfi.org/wordpress/wp-content/uploads/2021/12/Good-Practice-Guide-to-Climate-Stress-Testing.pdf>

<https://assets.bbhub.io/company/sites/60/2021/10/FINAL-2017-TCFD-Report.pdf>

<https://www.bankingsupervision.europa.eu/ecb/pub/pdf/ssm.thematicreviewcercompendiumgoodpractices112022~b474fb8ed0.en.pdf>

<https://www.bankofengland.co.uk/-/media/boe/files/prudential-regulation/letter/2022/october/managing-climate-related-financial-risks.pdf>

## 7. Resources: Referenced in Playbook

“Guide to climate scenario analysis for central banks and supervisors”, Network for Greening the Financial System, June 2020,

[https://www.ngfs.net/sites/default/files/medias/documents/ngfs\\_guide\\_scenario\\_analysis\\_final.pdf](https://www.ngfs.net/sites/default/files/medias/documents/ngfs_guide_scenario_analysis_final.pdf), June 2024.

“Climate Risk Management”, Office of the Superintendent of Financial Institutions, March 31, 2023, <https://www.osfi-bsif.gc.ca/en/guidance/guidance-library/climate-risk-management>, July 2024.

“Climate Scenario Analysis Practices”, Global Association of Risk Professionals, October 21, 2021, <https://www.garp.org/risk-intelligence/sustainability-climate/climate-scenario-analysis-practices-211025>, July 2024.

“Climate Risk Management Guideline”, Autorité des marchés financiers, July 2024, <https://lautorite.qc.ca/en/professionals/insurers/guidelines/credit-market-and-insurance-risk/guideline-on-the-management-of-climate-change-risks>

“ Proposed Operational Risk and Resilience”, Financial services Regulatory Authority of Ontario, <https://www.fsrao.ca/industry/credit-unions-and-caisses-populaires/regulatory-framework/guidance-credit-unions-and-caisses-populaires/proposed-operational-risk-and-resilience>

## 8. Updates from Bill C-59: The Fall Economic Statement Implementation Act

Among other things, Bill C59 has been passed to reduce greenwashing in Canada.

### **Introduction and Purpose:**

- Bill C-59, known as the Fall Economic Statement Implementation Act 2023, was introduced to reinforce Canada's commitment to environmental integrity and consumer protection.
- Aimed at addressing and curtailing greenwashing practices by businesses making environmental claims.

### **Key Amendments:**

- Amends the Competition Act to introduce stricter requirements for substantiating environmental claims.
- Businesses must now provide adequate and proper testing to back their environmental benefit claims.

### **Requirements for Environmental Claims:**

- Claims must be supported by scientific evidence and reliable data.
- All claims must align with internationally recognized methodologies and standards to ensure consistency and credibility.

### **Enforcement and Scrutiny:**

- The Competition Bureau is granted greater authority to investigate false or misleading environmental claims.
- Businesses can expect more rigorous audits and checks on their marketing and labeling practices.

### **Specific Focus Areas:**

- Targets a wide range of environmental claims, including but not limited to carbon footprint reduction, sustainability and eco-friendliness, and renewable energy usage.

### **Compliance and Penalties:**

- Bill C-59 became mandatory following Royal Assent on June 20, 2024.
- Non-compliance may result in significant fines, corrective measures, and potential reputational damage. (Resulting in a \$10M for a first offense and a \$15M or 3% of revenue penalty subsequent offenses.).

### **Broader Implications:**

- The bill extends to all businesses, regardless of size, making environmental benefit claims in Canada.
- Emphasizes transparency, aiming to build consumer trust and contribute to more sustainable business practices.