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Via email: ec.sfep-pefd.ec@canada.ca

Comments on the Interim Report of the Expert Panel on Sustainable Finance

Dear Mr. Macklem, Mr. Chisholm, Ms. Thomassin and Ms. Zvan,

With $145.6 billion of managed assets, British Columbia Investment Management Corporation (BCI) is a leading provider of investment management services for British Columbia's public sector and one of the largest asset managers in Canada. Investment returns play a significant role in helping our institutional clients build a financially secure future for their beneficiaries. As our clients have obligations that extend beyond 70 years, we take a long-term view on our investments. BCI relies on well-functioning capital markets and we consider it our responsibility to contribute to the overall stability of the financial system.

As an active participant in the capital markets, we address systemic risks with the expectation that our efforts will lead to greater stability and integrity within the markets. We regularly engage with regulators and advocate for legal and regulatory changes to ensure that principles of good governance are integrated into the regulatory framework. As such, we appreciate the opportunity to respond to the *Interim Report of the Expert Panel on Sustainable Finance*, (the "report") published in November 2018.

BCI would like to compliment the expert panel on the thoroughness and thoughtfulness of the report. We appreciate the efforts that were made to consult so many participants in Canada's business and financial communities. We believe the report covers all elements most important to the discussion of a sustainable financial system in Canada and asks the appropriate questions.

BCI is pleased to provide some overarching comments on the report as well as additional comments on some of the specific questions posed in the report. All of our comments come from our perspective as an institutional investor investing on behalf of primarily public sector pension plan clients.

The Role of Canada's Public Sector Pension Plans

We agree with the expert panel's assertion that Canada's large public sector pension plans are viewed as global leaders and possess significant influence on market participants in Canada. However, we feel it is important to note that public sector pension plans cannot be relied upon solely to direct capital to sustainable finance products. This group of investors has a significant role to play but it is in combination with other market participants including banks, insurers, commercial asset managers, stock exchanges and securities regulators.

BCI has a strict investment mandate that requires us to generate the needed returns, acting in the best financial interest of our clients. This strict mandate, does not, however, preclude BCI from being a responsible investor or from integrating environmental, social and governance ("ESG") factors in our processes. We believe taking these factors into account enables us to better understand, manage and mitigate risks associated with long-term investments. As such, we believe that investors that have not yet integrated ESG factors into their decision making can and should be encouraged to do so.

The Role of the Federal Government

In our review of the interim report, we noted that many of the challenges described as well as questions posed, arguably fall outside the scope of the Federal Government. Without a doubt, the Government of Canada has a role in encouraging a greener financial system through its articulation of priorities and policy decisions. However, it lacks the jurisdiction, tools and levers to address every challenge raised in the report and we therefore urge the Panel to emphasize and prioritize those recommendations where the role of the Federal Government can be leveraged.

Section 3.1 of the report raises the issue of the uncertainty that exists on climate and carbon policy in Canada. BCI confirms these uncertainties and is reminded that this policy vagueness has been a challenge for almost two decades. While we do believe that financial and business sectors will react to clear policy decisions, such as carbon pricing, any policy certainty is subject to erosion with election cycles. This poses challenges for investors that have a long-term investment horizon.

We agree that climate change is a material risk to markets and economic performance over the time frame relevant to our clients' liabilities. BCI is supportive of action that minimizes long term negative impacts of climate change including efforts to reduce greenhouse gas emissions (GHGs) through added policy certainty.

Reliable Information

We cannot stress enough the importance of quality data in the advancement of a sustainable finance system in Canada. It is important to recognize that we are in a space where often basic information around Scope 1 and Scope 2 GHG emissions is not disclosed. In the process of conducting our own carbon footprint for our public equities portfolio, we found disclosure rates ranging from as low as 6% up to 70% depending on the mandate. This leads investors who wish to integrate considerations of climate risk into their decisions to rely on estimates from service providers. BCI believes there are opportunities to improve the disclosure regime and that this could be done in a way that minimizes the potential for future governments to alter the course and provides investors with a level of certainty in the data they can access. While it does not get us complete regulatory certainty, it can provide a foundation to build on and would be a big step forward in providing companies and investors with certainty around the information expected by the market.

BCI has, many times, called on policy makers and regulators to put standards in place that will ensure complete, reliable and comparable climate change related disclosure. For example, we are official supporters of the Taskforce for Climate-related Financial Disclosure (TCFD) recommendations and have published our own TCFD disclosure (**http://bcimc-ar.uberflip.com/i/1024019-bcis-climate-action-plan-and-approach-to-the-tcfd-recommendations**). It would be a positive signal to the market if the Government of Canada became an official supporter of the TCFD as well. Since the report was published, we have also seen the International Organization of Securities Commissions (IOSCO) weigh in to this conversation with a statement issued on January 18, 2019, calling on issuers to address ESG issues in their disclosures. This statement highlights the importance of ESG to securities regulators given the many changes occurring in both investors' expectations and company disclosure practices.

We believe that a barrier to broader adoption of the TCFD recommendations is that fact that the recommendations remain voluntary. BCI recognizes that the federal government does not have many levers at its disposal for mandating disclosure from publicly-traded companies other than potentially, the Canada Business Corporations Act (CBCA). It is our view that TCFD disclosure should be mandatory, under a comply or explain regime, for these companies. Longer term, the federal government could work with the provinces to harmonize the CBCA with relevant provincial statutes to provide consistency.

A more expedient option is working with the stock exchanges to introduce minimum ESG reporting standards as a listing requirement. Through listing mechanisms, written guidance and education for issuers, stock exchanges are well positioned to contribute to a disclosure regime that allows investors to measure climate risk and to identify sustainable investments. For this reason, BCI has been a long-time supporter of the global Sustainable Stock Exchanges Initiative (SSE), organized under the umbrella of the Principles for Responsible Investment (PRI). As of the date of this letter, the TMX Group has not officially become a member of the SSE. The Government of Canada now has the opportunity to underscore the request investors have been making to TMX Group to join this collaborative effort.

BCI would be supportive of mandatory climate-related disclosures, aligned with the TCFD recommendations for companies in the TSX Composite index beginning with carbon-intensive sectors such as energy, materials and utilities. We believe a gradual approach is appropriate and while it is preferable in the long run, we don't believe this information must be included in securities filings at the outset to be useful to investors. BCI feels a comply or explain approach is acceptable as some recommendations are not necessary for all companies, specifically scenario analysis.

With the many actors involved in the corporate disclosure landscape in Canada, it would be prudent to bring the primary stakeholders together in a consultative fashion to chart the preferred path to mandatory ESG disclosure that aligns with TCFD.

Financial Markets & Products for Sustainable Growth

Energy Efficiency and Resiliency Retrofits

BCI's real estate subsidiary, QuadReal Property Group, represents almost 15% of our total assets under management (AUM). The business case for improved energy efficiency is clear within real estate as the savings are often very tangible for tenants and corporate tenants in particular, are seeking greener office space for both the environmental and employee benefits. Just as many consumer products are now covered by a labelling scheme, building labelling and its associated disclosure can be a catalyst for additional progress. This has been put in place in Ontario, the UK and Australia.

From a financing perspective, BCI sees value in exploring a bigger role for the Canada Mortgage and Housing Corporation (CMHC) as well as Property Assessed Clean Energy (PACE) financing on a larger scale. PACE financing overcomes the barrier of up-front costs associated with energy retrofits by facilitating access to funds that can be paid back over time as savings are realized.

Sustainable Infrastructure & Cleantech

While our infrastructure assets represent approximately 10% of our total AUM, these investments have the longest time horizon for BCI, often spanning decades. BCI has had particularly positive experiences with infrastructure investments in regions where a clear national infrastructure strategy has been developed (Brazil and Australia, for example). It is our view that a national strategy would be beneficial in Canada to provide clear guidance and direction to institutional investors like ourselves with clarity on the public infrastructure pipeline. Ultimately, infrastructure projects must be appropriately de-risked or structured in a way that make the risk acceptable given our need for reliable and consistent returns that meet our clients needs. The Canada Line project in British Columbia was a successful example that BCI was involved with, and can be examined specifically for how the risk was structured in a way that met our needs as well as other parties that were involved.

The other issue we encounter is the size of investments that BCI requires in order to meet allocation targets for clients. For large institutional investors, investments must be of a certain size to be meaningful to our portfolio and to devote the required resources for due diligence procedures. For this reason, it is our view that project aggregation or bundling of projects within this asset class may be a solution that provides access to the scale and risk profile we require and should be something the federal government can pursue in the next phase of this work. This would broaden the availability of capital for infrastructure projects going forward as it would match projects characteristics to the requirements of institutional capital and to a broader set of investors.

Some of the challenges that we see in infrastructure, we also see in the cleantech space as some of these investments currently do not fit our need for long term, predictable revenue streams and often don’t have the scale necessary for our purposes. Early stage venture capital has generally presented a higher risk profile and has lacked the profitability necessary for direct investment from large institutional investors. Pooled funds have been more appealing to larger institutional investors in order to spread the risk and they do not require the same type of due diligence that directly investing in the space requires.

Innovation in the Oil & Gas Industry

BCI has significant exposure to Canadian assets within our portfolio and we are keenly aware of the role oil and gas plays in the Canadian economy. Given this, it is in our interest to see the industry innovate and contribute to the low carbon transition in a measured way to avoid disruption. The industry has shown that it can collaborate and innovate as illustrated by the formation of the Canadian Oil Sands Innovation Alliance (COSIA) in 2012. COSIA is a unique model and BCI speaks frequently to members about their contributions to this organization in a supportive way. BCI has also witnessed innovative models such as joint venture partnerships with Indigenous communities as well as large oil and gas players funding smaller ventures in the hopes that these will have commercial application. These are positive examples and signals that the industry can innovate and additional incentives from the federal government can support these efforts.

However, these examples are not yet commonplace and the broader energy sector needs additional incentive to disclose information about environmental and social performance. Aggregated data can certainly play a role and we would note that the Canadian Association of Petroleum Producers (CAPP) has in the past provided such aggregated data under the auspices of the Responsible Canadian Energy Program. This program seems to have been disbanded and BCI feels this is a lost opportunity for the industry to showcase its commitment to environmental and social performance. Without disclosure of this performance, the energy sector may risk losing additional investment as index providers and asset management firms are continuing to build investment products around the low carbon theme.

Sustainable Asset Management & Financial Products

As stated earlier, in our experience, one of the most significant barriers to ESG integration is the availability of consistent and reliable data. Even if all barriers related to training or encouraging more ESG product and services, are removed, the reality is that sophisticated ESG integration can't be done in the absence of data that is of a quality comparable to what investors rely upon for traditional financial analysis. When the data is inconsistent, or not available, it is easy to dismiss entirely and it is our view that solutions to this should feature prominently in the Panel's final recommendations.

The report also mentions activities like voting on shareholder resolutions and direct engagement without acknowledging that Canada has no supporting frameworks to encourage investors to act as long- term stewards of the assets they manage. In other jurisdictions, this has been addressed by developing a Stewardship Code for institutional investors that supports transparency and accountability. In 2010, the United Kingdom (UK) was the first jurisdiction to adopt a stewardship code which is overseen by the Financial Conduct Authority (FCA), and several other jurisdictions have followed suit. While Canada has a voluntary set of best industry practices articulated by the members of the Canadian Coalition for Good Governance (CCGG), there is no reporting mechanism against these expectations and therefore, no assurance that members are carrying out stewardship duties. It is our view that a Stewardship Code for Canada could be an enabler for sustainable finance by bringing more transparency to the investment chain.

In terms of green and transition-linked financial products, BCI would agree that these types of products represent an opportunity to facilitate the broad transition to a low carbon economy. BCI has participated in green bonds over the years but only when issuances have met our risk and return expectations. Our investment teams often see green bonds being marketed at a premium rather than on comparable terms to their mainstream counterparts. So, while there is interest in the green bond market, the terms need to be competitive as our clients will not accept a lower return. The same holds true for transition-linked bonds. The concept is sound, especially given Canada's unique exposure to the energy sector. However, corporate issuers must consider the terms of these products carefully or the market will always remain limited.

Concluding Remarks

BCI would like to reiterate our appreciation for the work of the Expert Panel. In summary, it is our view that sustainable finance can be entirely consistent with fiduciary duty but requires some foundational elements to drive the momentum forward. Quality data that is consistent and comparable is one of the biggest barriers we see with straightforward solutions to this challenge and we have tried to point towards these throughout our response. Please feel free to contact Jennifer Coulson, BCI's Vice President, ESG at **jennifer.coulson@bci.ca** as you consider these comments, or if you require further clarification.

Regards,

Daniel Garant

Senior Vice President, Public Markets