



In Conversation with
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Office of the Superintendent of Financial Institutions Canada (OSFI)
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1. When and why did your institution join the NGFS?

OSFI employs a forward-looking approach to severe but plausible risks to financial institutions and the economy. Prior to 2021, OSFI analysed and supervised climate-related risks on an institution-by-institution basis, without formal guidance or policy direction. More recently, we have taken deliberate steps towards addressing climate-related risks in our supervisory work and in our broader macroprudential activities. After beginning to build our own resources to analyse climate-related prudential risks, we quickly confirmed that the potentially severe and wide-ranging impacts of climate change needed to be addressed through a prudential lens in Canada.

While we had a good understanding of how to go about quantifying climate risk, we also realized that neither OSFI nor Canada alone have all of the influence and tools required to address the risks on the horizon. Ensuring that the financial system remains resilient in the face of climate change demands that we address its threats with a greater sense of urgency, vigour and effort. We have been working with regulatory partners in Canada through the [Sustainable Finance Action Council](#), and other bilateral relationships. However, achieving substantive progress in this area will only be possible through global engagement, cooperation and coordination.

The need for further international engagement is clear to us at OSFI and NGFS membership is a critical milestone in our efforts to prepare the financial services sector in Canada for resilience to climate-related risks. Our membership to the NGFS in 2021 provides a forum to share work and benefit from the expertise of other international and domestic partners. Together we are preparing for a better future and the uncertainty that can come when the pace and scope of change remains a moving target.

2. Can you share with us the key elements of OSFI's climate strategy and how it fits into the broader national strategy in your jurisdiction?

Canada's climate plan is guided by Environment and Climate Change Canada, which most recently articulated the country's [2030 Emissions Reduction Plan](#). This plan describes the next steps to combat climate change and brings sustainable, lasting economic prosperity to Canada. OSFI's climate strategy recognizes the broader imperative but is prudentially focused on safeguarding Canada's financial system as the world pursues net zero emissions by 2050. In particular, OSFI works towards improving the capabilities of federally regulated financial institutions to manage climate-related risks. We have recently increased our focus on climate risk, including the formation of a new division within OSFI, the Climate Risk Hub, which has dedicated resources to advance our climate risk strategy. Key elements of our strategy include developing guidance for climate risk management and disclosure expectations, advancing data and scenario analysis capabilities, and engaging with stakeholders.

Our climate risk management guidance started with an industry [discussion paper in 2021](#), which focused on building awareness and seeking feedback of climate-related risks. Many respondents were in the early stages of assessing these risks and there was general agreement that any new guidance be principles-based and aligned with global standards while considering the Canadian resource-based economic context. We are developing climate risk guidance focusing on incorporating climate-related risks into the governance, strategic and risk management processes of regulated entities, increasing the financial and operational resilience of institutions and articulating climate-related disclosure expectations. Our guidance will be principles-based, consistent with expectations set by international standard-setters and our own consultations. We plan to issue this guidance for consultation this spring (2022) for implementation by the year's end. We also plan for iterative updates going forward as we and the industry build capabilities, expectations and as risks evolve.

Data management and analytics are currently key overall strategic priorities at OSFI, underpinning strong regulation and effective supervision. We are implementing a medium-term strategy to restructure our data environment and improve our data and analytics capabilities. For climate-related risk, we are conducting a data gap analysis of our existing data and will target obtaining supplemental information to provide us with a comprehensive view of applicable climate risk exposures. Our early involvement with the NGFS Bridging the Data Gaps Workstreamⁱ is proving invaluable in our efforts towards striving for reliable and comparable data.

Scenario analysis has also been a key component of our strategy. In January we published the results of a [pilot project on climate transition risk scenario analysis](#), which we conducted jointly with the Bank of Canada. The exercise was instrumental in understanding the capabilities of institutions and the financial sector's potential exposure to a range of risks that may come with a transition to a low-carbon economy. This work was a critical step toward building risk management capability and awareness among regulated entities, thereby promoting financial resilience through the transition. Looking forward, we plan to expand the scope of our work to develop standardized scenario analysis exercises for our institutions to leverage.

From a stakeholder engagement perspective, climate change and climate-related risks are complex issues that require collaboration with multiple stakeholders. We will implement an engagement strategy that includes working closely with financial sector industry participants, domestic regulatory partners, and international regulators and standard setters. The NGFS and member institutions are key partners along a climate risk path we will all take together.

3. To which extent did OSFI leverage the work of the NGFS in its own domestic journey? Any concrete examples?

We found the early NGFS work and publications invaluable in developing our own climate risk strategy, especially since the guidance was created for supervisory authorities. In particular, the recommendations within the [NGFS Guide for Supervisors](#) were essential to understanding climate-related financial risks, increasing awareness and developing a supervisory plan.

The [NGFS Guide to climate scenario analysis for central banks and supervisors](#) was an important foundation for our own domestic climate pilot work with the Banks of Canada. We developed climate transition scenarios, aligned with the NGFS reference scenarios, to assess the exposures and climate-related risks of six Canadian financial institutions. The scenarios were specifically designed to capture a range of potential outcomes and illustrate the types of stresses on the financial system and economy that could occur as the world transitions to a low-carbon future. The scenario results highlighted that meeting climate targets will lead to significant structural changes for the Canadian and the global economy. This transition will be more challenging for the Canadian economy, which has large carbon-intensive sectors. Further delay on climate policy action increases the overall economic impacts and risks to financial stability.

4. One last word?

Climate risk is uniquely cross-border and cross-sector, unlike some more traditional financial risks, such as credit risk. For example, from a cross-border perspective, the carbon footprints of Canada and other countries do not just affect our respective countries but have impacts across the globe. And it is cross-sector, as the impacts of climate risk are not just limited to banking, insurance or asset management, but will transfer across sectors and across economies. This presents unique collective action challenges, and it is important to have consistent global standards and solutions.

This is a shared problem with unpredictable and uneven impacts, tipping points and feedback loops. We don't know what it will look like. The unknown range of variability is a lot greater than other risks we know better. While the problem is immense and challenging, the need to have a more resilient system is heightened in an environment of uncertainty.

Our domestic efforts and international commitments to the work being accomplished at the NGFS helps pursue improved supervisory practices, risk measures and actions to raise the bar for preparedness to the impacts of climate change on the financial system and economy.

The more engagement we undertake with others the more we realize that more can be done. Working together collectively, these efforts are for the benefit of all those that rely on good decision-making in the face of change. We realize that work to address risk is never done as risks shift over time, but we are happy to be part of an organization that focuses on instilling a stable and sustainable financial sector.

ⁱ OSFI has been involved in the work of this NGFS workstream since 2020, prior to its official membership in 2021.