



By **Sean Cleary, PhD**
Executive Director,
Institute for Sustainable Finance

This series explores the foundations of sustainable finance, one of the most important emerging fields of our time. Sustainable finance aligns financial systems and services to promote long-term environmental sustainability and economic prosperity.

+ SUSTAINABLE FINANCE PRIMER SERIES:

What Is Sustainable Finance?

WHAT IS THE DEFINITION OF SUSTAINABLE FINANCE?

“Sustainable finance is a broader and newer concept whose meaning is still evolving,” according to the UN Environment – World Bank Group Initiative’s [November 2017 report](#). The report provides several definitions that have since been advanced by various organizations.

Coming to an agreement on one universally accepted definition is still an evolving discussion, so much so that in January 2019, the Technical Expert Group on Sustainable Finance (TEG) set up by the European Commission [requested input](#) on the development of an EU-wide classification system for economic activities that contribute to climate change mitigation.

HOW DOES THE CANADIAN EXPERT PANEL DEFINE IT?

The [Canadian Expert Panel](#) on Sustainable Finance provided the following definition, which identifies the three major components of the concept.

“Sustainable finance is viewed as capital flows (as reflected in lending and investment), risk management activities (such as insurance and risk assessment), and financial processes (including disclosure, valuations and oversight) that assimilate environmental and social factors as a means of promoting sustainable economic growth and the long-term stability of the financial system.”

Simply put, sustainable finance means aligning our financial systems and services to promote long-term environmental sustainability and economic prosperity.

WHAT IS THE ROLE OF SUSTAINABLE FINANCE?

The financial sector plays a critical role in our sustainable future since it is responsible for allocating funds to its most productive use. It is therefore well positioned to direct investments to sustainable corporations, organizations and projects, and assist in making strategic decisions on trade-offs among sustainable goals. By financing sustainable companies and endeavors, the finance sector can accelerate the transition.

Financial system participants, such as investors, have the power to exert their influence to drive sustainable business practices within companies that they invest in. Most importantly, finance can help certain sectors of the economy that are vulnerable to climate change shocks (i.e. transportation, insurance, reinsurance) in understanding and pricing risks associated with environmental issues. The [Canadian Expert Panel report](#) states that “Sustainable finance is both about building resilience to those widespread impacts and preventing further exacerbation.”

Explore other primers in the sustainable finance series [here](#). The new Institute for Sustainable Finance, based out of Smith School of Business at Queen's University, is set to launch this fall.

[Sean Cleary, PhD, CFA](#) is the Executive Director for the Institute for Sustainable Finance and the BMO Professor of Finance at Smith School of Business at Queen's University.

WHAT DOES SUSTAINABLE FINANCE IN ACTION LOOK LIKE?

A wide range of actions exist. They range from actions as simple as providing financial incentives for individuals to purchase electric cars or make their homes more energy efficient, to more complex activities such as issuing green or transition bonds to finance activities designed to reduce a company or municipality's carbon footprint.

There have been a significant number of collective sustainable finance actions undertaken in recent years. For example, in June 2017, the **Task Force for Climate-related Financial Disclosure (TCFD)** [issued its framework](#) for climate-related financial disclosures. In December 2017, global central bankers formed the **Central Banks and Supervisors Network for Greening the Financial System (NGFS)**. In December 2018, the **Investor Agenda (IA)** lobby group, representing more than 400 investors managing over \$42.5 trillion CAD, [demanded](#) "urgent cuts in carbon emissions and the phasing out of all coal burning."

WHAT'S HAPPENING IN CANADA?

There are several notable examples of sustainable finance in action in Canada:

- More than 35 Canadian organizations were official supporters of TCFD.
- Several large Canadian companies including the big banks, pensions and insurance companies have initiated successful green bond issues.
- 40 of the largest Canadian investors were signatories of the UN-Principles for Responsible Investment (PRI).
- The Canadian Responsible Investment Association (RIA) reported that firms responsible for managing \$1.9 trillion CAD in assets engaged in "responsible" investing by the end of 2017.
- The Canadian Standard writing Association (CSA Group) has recently established a working group to develop a green taxonomy for Canada.
- The Bank of Canada joined the NGFS in March of 2019 and identified climate risk as a key systemic vulnerability.

For individual companies, we can look at Caisse de depot et placement du Quebec (CDPQ), the second largest pension plan in Canada with assets of \$309.5 billion CAD in assets as of the end of 2018. In 2017, they released their [investment strategy to address climate change](#), which outlined their approach including increasing their low carbon investments by 50% by 2020 and reducing their carbon footprint by 25% per dollar invested by 2025. Suncor Energy, a large oil and gas company, has a stated target of reducing its greenhouse gas emissions intensity of the production of oil and petroleum products by 30% by 2030, and is also a supporter of the TCFD recommendations."

WHAT'S THE OUTLOOK FOR CANADIAN INVESTORS AND ISSUERS?

As we increasingly experience the physical impacts of climate change, we will experience the financial impacts as well. The challenge for Canada is: how do we tap into unprecedented global investment opportunities while protecting Canadian assets, investors, and firms from risk in the context of climate change?

We need to grow and harness our capacity now if we want to captain our own ship through one of the most significant global economic transitions in history. The only way to do this is by investing in the research, education, professional training, and collaboration necessary to lift our current generation of professionals to the next level, while preparing an emerging generation to lead.

