Institute for Management & Innovation
UNIVERSITY OF TORONTO
MISSISSAUGA

Canadian Banks and Sustainable Development

MScSM
Master of Science in Sustainability Management

Are Canadian financial institutions operationalizing their Sustainability Commitments and making them an integral part of their overarching sustainability strategy?

By Ana Karina Gutierrez Sotomayor | Supervised by PhD. Nicola Lacetera | SSM 1100Y Research Paper

INTRODUCTION

In July 2019, 23 of the world's 50 largest private sector banks had made sustainable finance commitments (World Resources Institute, 2019). Banks have set bold commitments dedicating target amounts of financing for different sustainable activities during a specific timeframe. The sustainable activities vary across banks – this research will further determine what these activities entail throughout the Bank Analysis Section. The commitments may seem simple; however, various components lie behind the headline numbers. Media and society have been captured by the absolute size of the banks' commitments and their creative and bold headlines. It is essential to take time to think about the portrayed commitments and look at a more complex picture when considering the size of the commitment in annual terms and the level of clarity about what counts towards these.

PURPOSE

The purpose of this research is to improve the understanding of the top five Canadian banks' sustainable finance commitments and identify if these are more of a communications-marketing approach or if they are truly strategic and with clear guidance to be implemented. The research explores the following: *What are the Canadian banks' commitments, and what are they composed of? Are they strategic, and have clear targets, metrics and operational action items in place?*

Analyzing the sustainable finance commitments of the top five Canadian banks allows them to explore whether its commitment meets fundamental criteria for specificity, accountability, coherence, and how the commitment compares to its size and other relevant financing practices. Banks and stakeholders can also easily see how the design, transparency, and context of their commitment compare to that of their peers.

DISCCUSSION

In April 2019, RBC committed to providing **$100 billion** in sustainable finance by 2025.

Financing Activity Includes:

- Raising capital and providing advisory services for sustainable clients and projects
- Public sector finance
- Tax equity investments
- Green, social and sustainability bond underwriting
- Credit solutions including green and sustainability linked loans
- Retail and commercial auto financing

Eligible Categories:

- Renewable energy
- Energy efficiency
- Pollution prevention and control
- Sustainable land use
- Clean transportation
- Sustainable water management
- Green buildings
- Affordable housing
- Access to essential services
- Socioeconomic advancement and

"TD is taking clear steps to accelerate the development of a low carbon economy, while recognizing the importance of responsibly developing conventional energy, vital to North America's economic strength and security"
(TD Bank Newsroom, December 18, 2017.)

In December 2017, TD set a target of a total of **CAD $100 billion** in low-carbon financing by 2030.

Eligible sectors:

- Low-carbon power generation;
- Energy efficiency and management;
- Green infrastructure;
- Sustainable land use.

Sustainable Finance activity includes:

- lending,
- financing,
- asset management and
- internal corporate programs

In November 2019, Scotiabank committed to mobilize $100 billion by 2025 to support the transition to a lower-carbon and more resilient economy

Financing Activities	Eligibility Criteria
• Lending • investing • financing and advisory • investments in the Bank's direct operations and communities where it operates to reduce the impacts of climate change.	Initiatives underlying this commitment align to Scotiabank's Green and Transition Taxonomy including: • renewable energy, • energy efficiency, • emissions reduction, • green buildings, • sustainable transportation, • infrastructure resilience, • biodiversity conservation, • pollution prevention and control, • waste management and/or sustainable water and land use.

"At Scotiabank, we are here for every future. For our clients and customers, communities, employees, and our Bank and shareholders. We are here to enable them to navigate the challenges and seize the opportunities that lie ahead."

"We commit to being a leading player in sustainable finance through solutions that help our clients create a more sustainable future,"
(Darryl White, Chief Executive Officer, BMO Financial Group.)

In June 2019, BMO committed that by 2025, BMO will mobilize **$400 billion** for sustainable finance.

The $400 billion commitment includes:

- $250 billion in client investments, which, as trusted advisors, BMO will help to align with sustainable objectives
- Provide $150 billion in capital to companies pursuing sustainable outcomes
- Complement this with products and advisory services to help clients chart a path to improved sustainability

In September 24, 2019, CIBC announced a commitment to support **$150 billion** in environmental and sustainable finance activities by 2027, underscoring the bank's focus on enabling growth, and helping make Canada and North America global leaders in environmental stewardship and sustainability.

Financing Activities	Eligibility Criteria
• Capital Markets • Lending • Advisory	No eligibility criteria identified

"Our bank recognizes the positive role that financial institutions can play by investing in a more sustainable future," said Harry Culham, Senior Executive Vice-President and Group Head, Capital Markets, CIBC. "Our commitment today will enable the development and implementation of new and innovative solutions for our clients to address critical environmental challenges including climate change."

The table summarizes the performance of each of the five banks on the specificity and accountability indicators. With these visuals, one can see the outperformer being TD Bank portraying itself as the leader in the Sustainable Finance Commitments. CIBC and BMO fall behind their peers when it comes to having set methodologies in place and their level of detail on their respective commitment. The last column shows the percentage of banks that meet each indicator among North American Banks, taken from the WRI Framework (2019). This percentage provides an opportunity for a comparison of how the Canadian banks are performing compared to North American Banks.

References

BMO. (2019). Commitments to Double the Good for Thriving Economy, Sustainable Future and Inclusive Society. Retrieved from https://newsroom.bmo.com/2019-06-07-BMO-Unveils-Commitments-to-Double-the-Good-for-Thriving-Economy-Sustainable-Future-and-Inclusive-Society
BMO. (2019). 2018 Environmental, Social and Governance Report. Retrieved from https://www.bmo.com/corporate-governance/files/en/BMO_ESG_PAS_en.pdf
BNS. (2019). Climate Change Commitments. Retrieved from https://www.scotiabank.com/content/dam/scotiabank/canada/common/documents/Scotiabank_Climate_Commitments_EN.pdf
BNS. (2018). 2018 Sustainable Business Report. Retrieved from https://www.scotiabank.com/content/dam/scotiabank/canada/en/documents/about/2018_Sustainable_Business_Report_Final_ENG.pdf
CIBC. (2019). 2018 Corporate Responsibility Report. Retrieved from https://www.cibc.com/content/dam/about_cibc/corporate_responsibility/pdfs/cibc-crr-2018-en.pdf
CIBC. (2019). CIBC Announces $150 billion in Environmental and Sustainable Finance by 2027. Retrieved from https://www.newswire.ca/news-releases/cibc-announces-150-billion-in-environmental-and-sustainable-financing-by-2027-833977960.html
RAN (Rainforest Action Network), et. al. (2019). Banking on Climate Change: Fossil Fuel Finance Report Card. Retrieved from https://www.ran.org/wp-content/ uploads/2019/03/Banking_on_Climate_Change_2019_vFINAL1.pdf.
RBC. (2019). ESG Performance Report 2018. Retrieved from https://www.rbc.com/community-social-impact/_assets-custom/pdf/2018-ESG-Report.PDF
RBC. (2019). Our Commitment to Sustainable Finance. Retrieved from http://www.rbc.com/community-sustainability/_assets-custom/pdf/OurCommitment_EN.PDF
TCFD. (2018). Recommendations of the Task Force on Climate-related Financial Disclosures. Retrieved from https://www.fsb-tcfd.org/wp-content/uploads/2017/06/FINAL-2017-TCFD-Report-11052018.pdf
TD. (2018). TD Low-Carbon Economy Progress Report 2017-2018. Retrieved from https://www.td.com/document/PDF/corporateresponsibility/2018-LC-Economy-Report.pdf
TD. (2018). The Ready Commitment Report 2018. Retrieved from https://www.td.com/document/PDF/corporateresponsibility/2018-TRC.pdf
TD. (2017). TD Bank Group Launches Initiatives to Support a Sustainable and Prosperous Future. Retrieved from http://td.mediaroom.com/index.php?s=19518&item=135953
World Resources Institute. (2019). Unpacking Green Targets: A Framework for Interpreting Private Sector Banks' Sustainable Finance Commitments. Retrieved from https://wriorg.s3.amazonaws.com/s3fs-public/unpacking-green-targets-10-04-19.pdf

METHODOLOGY

Research Process

First, a profile was created for each bank. The profiles were prefilled, relying on data inputs of the commitment such as amount, currency, scope, time horizon, accounting methodology, and description of financial reporting practice.

Secondly, a tool to compare private sector banks' sustainable finance commitments was utilized. The purpose of utilizing the WRI assessment framework was to present the banks' commitments in plain contextualized terms. The analysis consisted of identifying and evaluating the commitments base on a detailed criterion (specificity, coherence, accountability and magnitude) (World Resources Institute, 2019).

In the third stage, the research reviewed and analyzed the completed bank profiles from stage one and benchmarked this against the results from the WRI comparative tool. This process allowed for the review of additional disclosures and update scores where relevant. In this stage, the paper identified what SDGs banks are focusing on, allowing us to see the real impact of these commitments for the business, society and the environment base on the 2030 sustainability agenda.

KEY FINDINGS

- Gap in variability among banks' sustainable finance commitments terms and definitions

As shown in the Bank discussion section, it may be attractive or comfortable to take the amount of the financing pledge and compare the sustainable finance commitments based on the dollar signs. However, not only each bank provides a unique way of defining and describing its sustainable financing goals and visions, but also, there is a notable difference in the criteria each bank uses for their commitments.

- Poor performance on disclosing methodology to measure commitments and the discrepancy between the magnitude of sustainable finance commitments

Majority of the banks meet the criteria for the specificity indicator, although they all vary widely. However, looking at accountability and assessing whether the bank discloses a methodology for tracking total financing and other services provided under the commitment target, four out of five banks fall short in disclosing an accounting methodology for tracking commitments.

- Fossil Fuel financing has become less critical, but still, large financing amounts are being allocated towards it

The magnitude graph summarizes the position each bank takes concerning their annualized average total finance for fossil fuels, on the x-axis, and their annualized sustainable finance commitment, on the y-axis. BMO outstands from its peers as they committed a more substantial amount towards sustainable finance while dedicating less financing towards fossil fuels.

Indicator	RBC	TD	Scotiabank	BMO	CIBC	% of banks that meet this indicator among North American Banks (WRI, 2019)
Specificity: Defines Sustainability criteria	Yes	Yes	Yes	Yes	Vague	89%
Specificity: Identifies financial services included	Yes	Yes	Yes	Vague	Vague	78%
Specificity: Provides Specific timeline	Provides time frame	Provides time frame	Provides time frame	Provides time frame	Provides time frame	67%
Accountability: Discloses methodology	Vague	Yes	Vague	No	Vague	56%
Accountability: Includes plan for reporting	Vague	Yes	Vague	No	Vague	78%
Accountability: Endorsed by CEO/ Board Chair	No	Yes	Yes	Yes	Yes	78%