# OSFI'S DRAFT GUIDELINE ON CLIMATE RISK MANAGEMENT IMPOSES NEW DISCLOSURE OBLIGATIONS ON FRFIS

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**Categories:** Insights, Publications

On May 26, 2022, the Office of the Superintendent of Financial Institutions ("**OSFI**") released draft guideline B-15 (the "**Guideline**"), setting out expectations for Federally Regulated Financial Institutions' ("**FRFIs**") management of financial risks associated with climate change.[1] The Guideline is aimed at ensuring a healthy and stable financial system in Canada by preparing FRFIs to face the increasingly severe impact of climate change. The Guideline outlines OSFI's expectations regarding governance and risk management, introduces expectations regarding climate scenario analysis, capital and liquidity adequacy and introduces climate-related financial disclosure obligations.

***Expectations regarding Governance:***

OSFI outlined two key expectations concerning the governance of FRFIs:

i. FRFIs should consider the short and long-term implications of climate change, including the implications of transitioning to a low-greenhouse gas economy, in their business models and strategies (termed "transition risks"). These considerations should also guide the development and implementation of a "Climate Transition Plan."[2]
ii. FRFIs should implement climate risk management policies and practices. This includes the integration of climate-related risks into risk management frameworks such as the FRFI's Risk Appetite Framework, Internal Control Framework, and Enterprise Risk Management Framework.

***Expectations regarding Risk Management:***

OSFI's expectations with respect to risk management provide a framework for FRFIs to dampen the impact of ever-growing climate-related risks. OSFI identified two main components to risk management:

i. *Identification and Management of Exposures to Climate Risk*: FRFIs should implement procedures to identify and measure the impact of climate-related risks on their portfolio. This data should then be used in the development of risk management policies. FRFIs should continually monitor and report climate risks and the effectiveness of their climate risk management initiatives.

ii. *Mitigation of the Impact of Potential Climate-Related Disasters*: OSFI expects FRFIs to consider climate-related disasters during decision-making and monitor any changes in order to mitigate any potential effects.

In addition to the above governance and risk management expectations, OSFI expects FRFIs to perform analyses of potential climate scenarios regularly in order to determine the impact that such events would have on their business. Finally, FRFIs are expected to adjust their financials in order to provide a buffer to accommodate climate-related risks. OSFI notes that the capital and liquidity adequacy provisions of the Guideline may be expanded in future iterations.

***Climate-Related Disclosures:***

Perhaps most significant, the Guideline mandates climate-related disclosures for all FRFIs, other than subsidiaries if they report consolidated results to OSFI.

OSFI expects FRFIs to disclose relatively detailed information regarding the impact of climate-related risks on their business, markets, financial statements, investment strategy, or future cash flows. In addition, the disclosure should include the nature and extent of their exposure to potential climate-related risks, as well as the FRFI's strategies for managing these risks.

The information disclosed should be:

i. relevant;
ii. specific and complete;
iii. clear, balanced, and understandable;
iv. reliable, verifiable, and objective;
v. proportional to the FRFI's size, nature, and complexity; and
vi. updated consistently.

FRFIs will be required to make these disclosures annually. They will also be required to be made publicly available no later than 180 days after the end of their fiscal year. However, FRFIs have the liberty to choose the format of the disclosure.

**Implementation Date**

OSFI has invited comments on the draft Guideline until August 19, 2022. The Guideline provides for detailed provisions with respect to implementation. Of particular note, the disclosure requirements are expected to be implemented by FRFIs on or after fiscal periods ending October 1st, 2023.

**Conclusion**

The Guideline is intended to help FRFIs increase their resilience to climate-related risks, which are expected to grow in frequency and severity over time. Many countries, including the totality of the European Union, have already started implementing climate-related financial disclosure requirements as recommended by the Financial Stability Board's Task Force on Climate-Related Financial Disclosures ("**TCFD**"). These recommendations have many supporters, including more than 120 regulators and governmental entities.[3] Canada will now join countries such as Brazil, Singapore, Japan and Switzerland, along with the European Union and the United Kingdom as a jurisdiction implementing reporting requirements aligned with the TCFD's recommendations. OSFI will be monitoring international efforts and plans to review and update the Guideline as practices evolve.

[1][ps2id id='1' target=''/] Draft Guideline.
[2][ps2id id='2' target=''/] A plan to assist the FRFI's management through the transition to a low-greenhouse gas economy and informs them of the increased physical risks caused by climate change.
[3][ps2id id='3' target=''/] Task Force on Climate-related Financial Disclosures: 2021 Status Report.

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**A Cautionary Note**

The foregoing provides only an overview and does not constitute legal advice. Readers are cautioned against making any decisions based on this material alone. Rather, specific legal advice should be obtained.