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Re: Comments on Canada's Approach to Climate Change

We are writing in response to the request for comments on Canada's approach to climate change.[1] We strongly support decisive government action on climate change and welcome the Federal Government's focused attention on this important issue.

As a Canadian investment management company with approximately $6 billion in assets under management (AUM), NEI Investments' approach to investing incorporates the thesis that companies integrating best environmental, social and governance (ESG) practices into their strategy and operations will build long-term sustainable value for all stakeholders and provide higher risk-adjusted returns to shareholders. The company evaluations, corporate engagement and research activities that we conduct to fulfill our responsible investment commitments give us insight into Canadian companies' progress in responding to sustainability risks, the obstacles they face, and how appropriate policy could support their efforts.

NEI's holdings include Canadian Federal fixed income instruments, so we also offer our perspective as a financial stakeholder in Canada's own investment offerings. The responsible investment community globally is exploring the integration of ESG factors into bond investment, as well as the potential to enhance engagement on ESG questions with bond issuers, both corporate and non-corporate. Over 1500 investment institutions representing more than US$60 trillion in assets under management are signatories to the Principles for Responsible Investment (PRI), a global collaboration to advance the practice of responsible investment. So far, PRI signatories representing US$15 trillion in AUM and six credit ratings agencies have expressed support for the *Statement on ESG in Credit Ratings*,[2] which recognizes that ESG risks can create volatility for government bonds; while investors representing US$2.2 trillion in AUM have signed the *Green Bonds Statement*[3] calling on governments to support issuance of bonds that address climate change based on clear standards.

Taking Action on Climate Change

We welcome the prominence given to climate change leadership by the Federal Government. Canada's adoption of the Paris Agreement and the corresponding goal of limiting global average temperature rise to below 2°C will be the base upon which Federal and provincial efforts are built.

We believe mitigating climate change risk should be an imperative for all Canadian investors regardless of which sectors of the economy they invest in. Investors focused on long-term financial returns face significant risks from climate-related impacts. Further, we believe investors bear a responsibility to

[1] Government of Canada (2016).Canada's Approach to Climate Change: http://letstalkclimateaction.ca/index.php?lang=en
[2] Principles for Responsible Investment (2016). Statement on ESG in Credit Ratings. https://www.unpri.org/press-releases/credit-ratings-agencies-embrace-more-systematic-consideration-of-esg
[3] The Paris Green Bonds Statement (2015). http://www.climatebonds.net/files/files/Paris_Investor_Statement_9Dec15.pdf

actively address climate change through investment decision-making and engagement with companies in their portfolio. However, enhancements to current Canadian policy and regulation are also needed to spur the energy transition and hasten the shift to investment in low-carbon activities.

Canada's action or inaction on climate change is material for us, as an institution with significant exposure to the Canadian markets. As such, we have prioritized engaging with Canadian policy makers at the federal and provincial levels to demonstrate the investor demand for robust climate change strategies.

Growing investor interest in climate change risk is particularly marked in the Canadian context, given our resource-oriented economy. In 2015 we co-authored a letter to the Alberta government, signed by global investment institutions with over $4.6 trillion in assets under management, supporting robust climate change policy.[4] This illustrates the significant international investor interest in Canadian climate policy. In the long term, whether that policy is seen as substantive and effective will impact opinion in the capital markets on Canada's attractiveness as an investment destination. We believe this is a significant risk, but also an opportunity.

There is a growing understanding that climate change poses significant risk to long-term investors.[5] At the same time, an international campaign has emerged urging investors to divest fossil fuel companies.[6] The investors following this call have responded in a variety of ways: some are divesting all companies engaged in the production of fossil fuels; others are developing "low-carbon" portfolios that dramatically reduce direct exposure to these companies.[7] This trend in investment decision-making is likely to become more pronounced as an increasing number of institutions adopt responsible investment mandates. Of concern to Canadian companies is that oil sands have been identified by campaigners as a high-carbon, high-cost source of production that should be targeted for early divestment. A robust regulatory system (including climate-specific regulations) is important to counter this perception of Canadian oil.

In our submission to the consultation on the Federal Sustainable Development Strategy 2016-2019 we highlighted the economic imperative for a Canada-wide price on carbon, and our belief that Canadian competitiveness (the energy sector included) would be harmed in the absence of credible carbon policy.[8]

2015 was a year of significant movement on carbon pricing and climate change policy in Canada, with policy action announced largely at the provincial level. We provided comments to public consultations in Alberta, British Columbia and Ontario.[9] In each jurisdiction we highlighted the importance of ensuring that whatever form policy took, it must include some form of carbon pricing mechanism and

[4] NEI Investments (2015). Renewing Alberta's Climate Change Framework. https://www.neiinvestments.com/documents/PublicPolicyAndStandards/2015/Premier%20of%20Alberta%20Collaborative%20Investor%20Letter.pdf
[5] The Global Investor Statement on Climate Change has over 400 signatories representing over US$24 trillion in assets under management: http://www.iigcc.org/files/publication-files/11DecemberGISCC.pdf
[6] Fossil Free: Divest from Fossil Fuels. http://gofossilfree.org/
[7] The Portfolio Decarbonization Project is an initiative of institutional investors committed to "decarbonizing" their portfolios. http://unepfi.org/pdc/
[8] https://www.neiinvestments.com/documents/PublicPolicyAndStandards/2016/Environment%20and%20Climate%20Change%20Canada%20-%20Federal%20Sustainable%20Development%20Strategy%202016-19.pdf
[9] Alberta: NEI Investments (2015). Renewing Alberta's Climate Change Framework. https://www.neiinvestments.com/documents/PublicPolicyAndStandards/2015/Alberta%20Climate%20Change%20Advisory%20Panel%20-%20Renewing%20Alberta%27s%20Climate%20Change%20Framework.pdf BC: NEI Investments (2015). Comments on the Climate Leadership Discussion Paper. https://www.neiinvestments.com/documents/PublicPolicyAndStandards/2015/BC%20Climate%20Action%20Secretariat%20-%20Comments%20on%20the%20Climate%20Leadership%20Discussion%20Paper.pdf NEI Investments (2015) Comments on the Climate Leadership Plan Consultation. https://www.neiinvestments.com/documents/PublicPolicyAndStandards/2016/BC%20Climate%20Action%20Secretariat%20-%20Climate%20Leadership%20Plan%20Consultation.pdf; Ontario: NEI Investments (2015). Climate Change Discussion Paper. https://www.neiinvestments.com/documents/PublicPolicyAndStandards/2015/Ontario%20Climate%20Change%20Consultation%20-%20NEI%20Comments.pdf

should directly incent innovation. Every effort should be made to align policy with these principles across Canada.

The Federal Government should also consider how it can leverage investor influence to drive the energy transition. As an investment institution engaging companies on climate change for over a decade, NEI can attest to the influence investors can and do have on corporate ESG performance. As noted earlier, corporate engagement is fundamental to our ESG approach and we have been able to effect real change. But our experience has also alerted us to the challenges that can hinder investors seeking to drive ESG performance improvements on issues such as climate change strategy. Meaningful disclosure on issuer strategies to identify and address climate risk is essential for investors, both to facilitate smart capital allocation decisions and to engage effectively in order to push companies to improve. The Federal Government should actively work to promote better disclosure on corporate climate disclosure.

Below are some specific opportunities for the Federal Government that we believe will help Canada in meeting its Paris commitments.

Corporate Climate Change-Related Disclosure

The current quality of corporate climate disclosure is uneven at best. It is difficult for investors to assess and compare companies on their carbon management strategies and performance, when disclosure on these issues is non-existent for large portions of the market. In theory, current reporting requirements should result in more uniform disclosure on systemic risks such as climate change. However, the lack of consistent disclosure across sectors indicates that further policy intervention is needed.

We believe that the key to promoting better ESG disclosure at the specific issue level – e.g. climate change risks – is to require better ESG disclosure at the strategic level. At the strategic level, we believe companies should be required to disclose if and how they are identifying and prioritizing the ESG issues that are material to their specific circumstances, and the outcome of this ESG materiality assessment. Any material ESG issues should then be integrated to the description of the company strategy. We believe that a majority of companies would be compelled to address climate change as a material risk. We believe requirements generating strategic ESG content would provide important information for investor decision-making and engagement with issuers, enable issuers to report more effectively on ESG matters at the specific topic level under principles-based requirements, and create a contextual framework for understanding the significance of those disclosures. Prescriptive requirements may be appropriate for strategic ESG disclosure. In this context, we would like to draw attention to the Integrated Reporting <IR> initiative, which focuses on holistic disclosure on business strategy.[10]

Climate change poses a systemic risk to markets and economies so that investors may seek to understand the extent to which every company in their portfolio impacts or is impacted by that issue. We believe all companies should either disclose on these types of issues, or provide a meaningful explanation of why they are immaterial to the specific circumstances of the company. The Federal Government should consider creating a formal obligation to report on climate change risks through prescriptive requirements if there is no other way to guarantee that all companies will "comply or explain", while directing companies to follow established ESG standards and guidelines with respect to the details of how to report.

[10] Integrated Reporting <IR>. http://integratedreporting.org/

In 2014 we participated in consultations on review of the Canada Business Corporations Act (CBCA),[11] which still remains to be updated. In our submission we highlighted the scope for some aspects of ESG disclosure to be mandated under CBCA, at least for larger companies, in consultation with securities regulators and exchanges. Many publicly-traded companies already provide ESG reporting on a voluntary basis, and there are precedents for mandating such disclosure at larger companies. In Canada, corporations under the Bank Act, the Insurance Companies Act and the Trust and Loan Companies Act are required to publish Public Accountability Statements including information on specified corporate responsibility matters.[12] Under the U.K. Companies Act Section 417, larger publicly-traded companies must publish a Directors' Report Business Review including information on environmental, social and employee issues.[13] In 2014 the European Union adopted a directive on disclosure of non-financial information applying to companies with over 500 employees.[14] Creating requirements for both listed and large privately-held companies to report on key corporate responsibility issues of interest to stakeholders would help to create a level playing field so that companies are not discouraged from listing by the additional reporting requirements.

It has already been clarified by both the Canadian Securities Administrators (CSA) and the Toronto Stock Exchange (TSX) that "material" ESG information must be disclosed by listed companies. For continuing listing, according to the TSX Company Manual, companies should follow CSA National Instrument 51-102 *Continuous Disclosure Obligations*. In 2010, CSA published Staff Notice 51-333 *Environmental Reporting*[15] which confirmed existing requirements to report on environmental issues. In its *Primer for Environmental and Social Disclosure*[16] TSX highlighted these requirements, noting that they apply equally to material social issues. It also emphasized the obligation under the timely disclosure policy to immediately disclose material environmental and social information through a news release. Interpretations of materiality vary, however, and company decisions on which issues to report could vary depending on this interpretation. A further concern is that companies may fail to disclose data consistently from year to year if a topic is not considered a material issue in a particular year. We value annual reporting on a consistent set of indicators as this allows us to perform trend line analysis, as well as to compare companies across sectors.

The Federal Government should take into account initiatives currently underway within the responsible investment space that could provide guidance on how to report on climate change risks. The Financial Stability Board (FSB) will be releasing the results of the Task Force on Climate-Related Financial Disclosure in late 2016. We submitted comments to the FSB consultation[17] and look forward to the outcome, which we expect to be an important contribution to the mitigation of systemic climate risk within the financial system. We believe securities regulators across the globe will seek to integrate the results into disclosure frameworks. While recognizing the jurisdictional boundaries, nevertheless we ask the Federal Government to do what it can to encourage securities regulators in Canada to mandate "comply or explain" disclosure expectations on material risks and opportunities relating to climate

[11] NEI Investments (2014) Re: Consultation on the Canada Business Corporations Act https://www.neiinvestments.com/documents/PublicPolicyAndStandards/2014/NEI%20comments%20CBCA%20Review.pdf
[12] Public Accountability Statements (Banks, Insurance Companies, Trust and Loan Companies) Regulations SOR/2002-133. http://laws-lois.justice.gc.ca/eng/regulations/SOR-2002-133/FullText.html
[13] Companies Act 2006. http://www.legislation.gov.uk/ukpga/2006/46/section/417
[14] Directive 2014/95/EU of the European Parliament and of the Council of 22 October 2014 amending Directive 2013/34/EU as regards disclosure of non-financial and diversity information by certain large undertakings and groups http://eur-lex.europa.eu/legal-content/EN/TXT/?uri=CELEX:32014L0095
[15] CSA (2010). Staff Notice 51-333: Environmental Reporting Guidance http://www.osc.gov.on.ca/documents/en/Securities-Category5/csa_20101027_51-333_environmental-reporting.pdf
[16] TMX/CPA (2014). A Primer for Environmental and Social Disclosure https://www.tsx.com/resource/en/73
[17] NEI Investments (2016). Comments on the Task Force on Climate-Related Financial Disclosure's Phase II Questions. https://www.neiinvestments.com/documents/PublicPolicyAndStandards/2016/Financial%20Stability%20Board%20Task%20Force%20on%20Climate-Related%20Disclosure%20-%20Phase%20II%20Consultation.pdf

change, noting the special role of the Ontario Securities Commission in guiding disclosure by all TSX-listed companies.[18]

In our April 2016 submission to the FSB Task Force,[19] we identified five pieces of information that we believe are near-universally material for issuers: we quote this content below.

1. ***Company strategy for mitigating the risks of climate change****. This is the key piece of information that we believe is material to every sector. This should be in a narrative form and should provide details on any concrete strategies the company employs to mitigate risks and identify opportunities, including a discussion of any targets or objectives the company has set in relation to the issue. It would ideally address both short and long-term strategies and, at a high level, detail the company's assessment of its strategic resilience to a low carbon economy. This metric may not be quantifiable but we believe that not all climate-related disclosure need or should be quantifiable. The strategic orientation of the company is a fundamental piece of information that we actively incorporate into our final investment decision for those sectors most exposed to climate risks.*
2. ***Responsibility for climate change within the company.*** *This will also be in narrative form and should detail company oversight of climate change issues. This would include a discussion of the board's oversight role, senior management ultimately responsible for performance, whether the company ties compensation to performance against specific climate related objectives, and whether the company has specific staff responsible for managing the issue.*
3. ***Absolute and Intensity Metrics for Greenhouse Gas Emissions (GHGs****). Fundamentally, investors need to have measurable data on the actual GHG footprint of the companies they invest in. Current data on emissions is spotty and not standardized. Perhaps most importantly, not all companies provide intensity disclosures (e.g. tonnes CO2 per barrel of oil equivalent) and investors are left to estimate these on their own. Having a standardized intensity measurement for various sectors would be very useful.*
4. ***Carbon price scenario planning.*** *This is a piece of information that is currently underreported yet would provide investors with material information. Specifically, we refer to the practice of utilizing a "shadow price on carbon" against internal decisions on capital expenditures. This would ideally incorporate disclosure of the range of prices used in the scenario planning (e.g. $15 - $70 per tonne of CO2e), discussion of how this information feeds into capital spending decisions, and a broad discussion of the materiality of the impacts of a price on carbon on the business. Essentially, we are looking for evidence that the company is stress-testing its long-term projects against the backdrop of a steadily rising price on carbon. Note that this should not be confused with asking the company to project what the price on carbon itself will be. Rather, we want to know the resilience of the company against a plausible range of carbon prices.*
5. ***Climate-related public policy and lobbying positions.*** *In the near-term, one of the biggest impediments to the adoption of robust climate change regulations is the active lobbying of individual companies and industry associations against the adoption of credible climate change legislation. While some sectors may benefit from the stalling or elimination of regulatory action on climate change in the near to mid-term, ultimately all sectors will experience negative impacts from unmitigated climate change. As such, any action taken by companies to delay effective regulations will bring risk to the entire economy, and consequently impact all investors*

[18] More detailed comments on the "comply or explain" approach can be found in our above-mentioned submission to the Ontario Government: https://www.neiinvestments.com/documents/PublicPolicyAndStandards/2015/Ontario%20Climate%20Change%20Consultation%20-%20NEI%20Comments.pdf

[19] NEI Investments (2016). Comments on the Task Force on Climate-Related Financial Disclosure's Phase II Questions https://www.neiinvestments.com/documents/PublicPolicyAndStandards/2016/Financial%20Stability%20Board%20Task%20Force%20on%20Climate-Related%20Disclosure%20-%20Phase%20II%20Consultation.pdf

regardless of whether they are avoiding high-carbon sectors. Companies should disclose their general position on climate change regulation, describe any lobbying activity they have engaged in, and provide disclosure on the lobbying activities of any industry associations or other third party organizations they provide funding to.

Although many aspects of corporate disclosure requirements fall within the domain of the provincial securities regulators and stock exchanges, we note that the Federal Government has intervened in certain areas, such as extractives transparency disclosure.[20] The Extractive Sector Transparency Measures Act (ESTMA) is a good example of an issue where the Federal Government mandated disclosure in the absence of provincial frameworks. Notably, ESTMA applies to both public and private corporations, thus capturing a greater number of companies than possible through a securities regulation approach. A similar mandate for climate disclosure might be valuable to the Federal Government if it is interested in capturing specific data points (e.g. emissions data). As noted above, having a disclosure expectation that covers both public and large private corporations would also limit the risk of discouraging companies from listing due to the enhanced reporting requirements.

Climate Targets

All Canadians will be impacted by Canada's success or failure in meeting the Paris targets. As a Canadian firm invested broadly across the domestic economy, we see material risk to our portfolio if Canada falls behind international efforts. In our view the Canadian energy sector has already been negatively affected by earlier perceived policy inaction, and we anticipate that the reputational impact of failing to meet current commitments would be felt across more than just the energy sector. Concretely, we are concerned that in the longer term Canadian firms could be penalized in international trade if efforts to mitigate climate risk are found wanting. As such, we welcome the commitment to work with the provinces to ensure a pan-Canadian framework for climate change.

While the overarching national targets under the Paris Agreement are understood, we believe the Federal Government should work with the provinces to create specific reduction targets across the economy. Tracking performance against reduction goals is a critical task that will be central to ensuring targets are achieved. The Federal Government is ideally positioned to provide transparent accounting of progress.

It will be important for the Federal Government to work with different economic sectors so that their contributions to Canada's emission profile and their possible pathways to the 2°C target are explored and better understood. We are not suggesting that the Federal Government should tell specific sectors how to meet the target. Rather, we believe the Federal Government can assist in creating detailed scenario analysis to help various economic actors choose the most efficient and cost-effective pathway forward. This kind of research would also help investors to mitigate climate-based risks in their portfolios.

While the scientific evidence on anthropogenic climate change is overwhelming and to a large degree publicly available, there is a lack of peer-reviewed information on the risks to corporations (and their investors) from the expected outcomes of climate change and the implications of climate policy, especially in light of the 2°C target. Given the role of fossil fuel production in the Canadian economy, there are special risks for Canadian companies and their investors that bear deeper investigation if we are to achieve a smooth transition to a low-carbon economy. We encourage the Federal Government

[20] Extractive Sector Transparency Measures Act (S.C. 2014, c. 39, s. 376) http://laws-lois.justice.gc.ca/eng/acts/E-22.7/page-1.html

to support research and forums for discussion that will further understanding of the specific risks and opportunities facing Canadian companies and investors.

Carbon Pricing

We believe Canada needs to implement meaningful, economy-wide carbon pricing that will make low-carbon investments more attractive over time. With several provinces now implementing a price on carbon, we believe there is a role for the Federal Government to ensure that all jurisdictions across the country are utilizing some form of carbon pricing. However, care should be taken to ensure that setting the floor for a price on carbon does not limit the ceiling. We are concerned, for example, that setting a federal backstop price that is too low could dissuade provinces from establishing more ambitious and more stringent carbon pricing frameworks. In order to be effective, any policy must encompass future carbon price increases.

While we strongly support a price on carbon as the centrepiece of any climate strategy, we do not take a position on which specific type of pricing mechanism the Federal Government or the provinces should adopt. However, we agree with the International Monetary Fund that any mechanism should be credible, flexible, broad-based and equitable.[21] We would stress that being equitable does not necessarily mean having the same rules or objectives regardless of the sector. Equitable treatment would allow for recognition of the unique characteristics of different sectors and their ability to transition to a low-carbon economy. Further, care should be taken to ensure that, at the individual level, carbon-pricing policies are equitable and minimize adverse impacts on vulnerable populations. We highlight the work of the Ecofiscal Commission and its focus on policies that increase the cost of negative externalities (such as carbon emissions) while reducing the overall regulatory and tax burden, with particular attention for impacts for low-income individuals and families.[22] We believe this approach warrants serious consideration.

While not advocating for a specific price level for carbon, we can share a perspective from our engagement practice on carbon pricing levels in general. For several years we have been asking energy companies in our funds to perform shadow carbon pricing on their projects to mitigate the risk that these investments could become stranded in a future with a significant price on carbon. This practice has become an industry norm among major oil and gas companies. A recent study by Sustainable Prosperity found that energy companies operating in Canada were utilizing an average shadow carbon price range of C$15-68/tonne.[23] While this was a study of just ten companies, the findings are in line with our own experience. Namely, companies do not disclose any significant material impacts from carbon pricing within this range.

Financing the Energy Transition

Canadian companies have traditionally not performed well on innovation, but it seems clear that future prosperity depends on how effectively innovation-based cultures can be stimulated.[24] We note with interest the commitment to create a Low Carbon Economy Trust, and to invest in green infrastructure and clean technologies.[25] We agree there is a role for the Federal Government in stimulating innovation in clean technologies, in particular for early stage research and development that could otherwise face challenges raising capital. We believe this can best be achieved by ensuring that Federal, provincial and,

[21] International Monetary Fund (2016). Factsheet: Climate, Environment and the IMF. http://www.imf.org/external/np/exr/facts/enviro.htm
[22] Ecofiscal Commission http://ecofiscal.ca/
[23] Sustainable Prosperity (2013). Shadow Carbon Pricing in the Canadian Energy Sector. http://www.sustainableprosperity.ca/sites/default/files/publications/files/Shadow%20Carbon%20Pricing%20in%20the%20Canadian%20Energy%20Sector.pdf
[24] Conference Board of Canada. How Canada Performs. http://www.conferenceboard.ca/hcp/details/innovation.aspx
[25] http://www.climatechange.gc.ca/default.asp?lang=En&n=72F16A84-1

where applicable, international initiatives work together to achieve optimal outcomes.[26] Effort should be made to identify key funding gaps and commercialization roadblocks that are not currently being addressed by private actors. The Federal Government's support of Mission Innovation aligns with this approach.

The Federal Government should consider near-term investment in infrastructure and technologies intended to significantly lower the carbon footprint within the traditional resource industries (such as mining, oil and gas, and forestry). We believe that efforts in this area should be a priority, especially in the energy sector, alongside efforts to incent the development of a low-carbon energy system.

We note the growing market (and support) for green bonds and climate bonds, both within Canada and globally.[27] We believe green bonds can play a growing role in stimulating the energy transition and encourage the Government of Canada to explore deeper involvement in this area. In 2014 Ontario issued the first provincial green bond, which was strongly embraced by investors, being more than four times oversubscribed. However, retail investors had limited access to this offering, consistent with the global experience for green and climate bonds. The secondary market for green bonds is decidedly shallow. Despite the rapid growth of the green and climate bond market, it is still relatively difficult for investors to get exposure to this asset class. The Federal Government has a role to play in both increasing the access to high quality green bonds and in ensuring that standards around green bond issuance are credible, robust and transparent.

Sustainable Energy, Clean Technology and Green Infrastructure

We note the growing investor interest in opportunities related to sustainable energy, clean technology and green infrastructure. More than 400 investors representing over US$24 trillion in AUM are signatory to the 2015 Global Investor Statement on Climate Change, which among other things commits investors to "identify and evaluate low carbon investment opportunities."[28] The International Energy Agency estimates that in order to meet the global goal of limiting climate change to 2°C we will need to invest US$28.5 trillion in low-carbon technologies and energy efficiency over the next 20 years.[29] A significant investment opportunity is emerging in this space and the Federal Government should consider how policy can optimize the ability of Canadian companies to benefit.

We believe the Federal Government has a clear role in advancing a Canadian Energy Strategy. Greater collaboration among the provinces on infrastructure, research and development, and in sharing implementation experiences, will be critical for optimizing the efficiency and efficacy of the energy transition and will ultimately provide more certainty for investors looking to allocate capital to this sector.

The oil and gas sector is the single biggest contributor to Canadian GHG emissions today and is projected to become an even bigger contributor over the next 15 years.[30] We believe the Canadian Energy Strategy must include a focus on reducing the impacts of the fossil fuel production and use that

[26] For example, Sustainable Development Technology Canada (SDTC) is a well-established program (https://www.sdtc.ca/en), while Alberta's Climate Change and Emissions Management Corporation (CCEMC) is a good example of how funds from a carbon-pricing system can be used to directly stimulate new technologies (http://ccemc.ca/). Ensuring that these entities work collaboratively should be a priority.

[27] Investor Statement re: Green Bonds & Climate Bonds (2014). http://www.neiinvestments.com/documents/PublicPolicyAndStandards/2014/Investor%20Statement%20on%20Green%20Bonds%20and%20Climate%20Bonds%2020141211.pdf

[28] Global Investor Statement on Climate Change http://www.iigcc.org/files/publication-files/11DecemberGISCC.pdf

[29] International Energy Agency (2014). World Energy Outlook – Special Report. https://www.iea.org/publications/freepublications/publication/WEIO2014.pdf

[30] Government of Canada (2016). Canada's Second Biennial Report on Climate Change. http://unfccc.int/files/national_reports/biennial_reports_and_iar/submitted_biennial_reports/application/pdf/canadas_2nd_biennial_report.pdf

is inevitable in the near- to mid-term. Innovation is required across the energy sector – both renewable and non-renewable.

We would also note that numerous remote communities, many of them Aboriginal, are underserved by our current energy system, relying on relatively "dirty" energy sources (e.g. diesel generators). Many of these communities are too small to provide a viable market for private, for-profit energy entities, absent significant incentives or subsidies. This speaks to the potential for the Federal Government and the provinces to be active partners in supporting innovative clean energy projects in these communities. In this context, we also point to the need to develop capacity within Aboriginal communities to manage clean energy projects. The Federal Government should build upon existing efforts in this area and specifically consider supporting the 20/20 Catalysts Program.[31]

We would like to highlight the potential social license challenges associated with the energy transition. The pace and scale of development required will inevitably create tension with other land uses and values. Consideration should be given to how best to avoid social license challenges in the development of renewable energy similar to that that have often delayed traditional resource projects. This speaks to the imperative for cumulative effects frameworks (such as regional strategic environmental assessments) developed in concert with Aboriginal communities.

However, regarding publicly-traded companies, investors need to exercise caution in shifting capital to clean tech companies. Excessively rapid growth in investment in nascent sectors could create a "low-carbon bubble" of over-valued companies that are unable to make effective use of capital to create long-term sustainable value. This would be detrimental both to the stability of the financial system and the development of low carbon industry. Instead, we would hope to see a steady expansion of the pool of investment-grade opportunities in the clean tech space. As mentioned earlier, we believe the Federal Government should prioritize funding and other support for early stage research and development, and efforts should be made to identify key funding gaps and commercialization roadblocks not currently addressed by private actors. This de-risking of clean tech opportunities will allow for the rapid deployment of capital from those investors traditionally too risk-averse to support early stage technologies.

Boreal conservation

The Canadian Boreal Forest stores an estimated 208 billion tonnes of carbon – almost 300 times Canada's 2012 GHG emissions.[32] We believe any credible Canadian climate policy must include a tangible commitment to preserve this key store of carbon. We believe there has been little discussion at a national level of this important emissions mitigation measure. We encourage the Federal Government to engage with organizations such as the Boreal Leadership Council (BLC) to build momentum towards a national Boreal strategy in line with the BLC's Boreal Forest Conservation Framework.[33] Critical to the success of any Boreal conservation strategy will be meaningful consultation and participation of local First Nations and Métis communities.

In fact, we believe there are specific synergies between the Federal Government's commitment to renew its relationship with Indigenous Peoples and its commitment to effectively address climate change in the context of Boreal conservation.[34] The Federal Government should explore opportunities to link Boreal conservation with carbon accounting and offset mechanisms and consider how

[31] 20/20 Catalysts Program http://indigenouscleanenergy.com/2020-catalysts-program/
[32] Canadian Boreal Initiative (2009). The Carbon the World Forgot. http://www.borealbirds.org/sites/default/files/pubs/report-full.pdf
[33] Canadian Boreal Conservation Framework. http://borealcouncil.ca/wp-content/uploads/2015/03/Framework-2015ENG.pdf
[34] http://pm.gc.ca/eng/minister-indigenous-and-northern-affairs-mandate-letter

Indigenous communities could become partners in the monitoring, evaluation, and monetization of carbon sequestration opportunities. We believe there is a real opportunity to help remote Indigenous communities diversify their economies while also mitigating key climate change risks.

We note the work that has been done in British Columbia on Atmospheric Benefit Sharing Agreements (ABSA).[35] These agreements allow First Nations the right to participate in carbon markets within the context of First Nations' traditional land rights. We would also point to the example of the Aboriginal Carbon Fund in Australia, an effort to strengthen Aboriginal communities economically through their involvement in carbon markets.[36] We believe there is merit in considering whether the Federal Government has a role to play in replicating similar strategies across the Boreal.

Resilience to Climate Change

It is increasingly clear that some level of change is now locked in to the climate system. Adaptation concerns are already impacting companies in our holdings: from insurance companies experiencing increased losses from weather-related events, to mining companies making additional investments to engineer tailings containment to handle increased frequency and intensity of flooding events. Responsible companies are taking steps to adapt, but there are significant costs in the short term. Enhancing regulation and standards with adaptation in mind can create a level playing field. We encourage the Federal Government to play a role in developing and mandating climate adaptation standards for projects and activities exposed to physical risk from climate change.

There should be a strategic priority of ensuring credible research on potential impacts of climate change is available in order to guide adaptation planning and decision making. Direct links should be made between climate adaptation goals and water management goals. Considering the seriousness of water-related climate change impacts, from flooding to water scarcity, we believe this topic should have prominence in the adaptation strategy discussion. Water impacts have significant implications for planning, permitting and retrofitting of infrastructure and indirectly for risk reduction in the insurance industry.

Multi-Stakeholder Expert Panels

In the course of recent provincial climate consultations several jurisdictions have taken the step of creating multi-stakeholder advisory boards consisting of experts from industry, finance, civil society, academia and Aboriginal communities.[37] We note that the Federal Government will be utilizing an expert panel in the consultations on the modernization of the National Energy Board and the review of Environmental Assessment Processes.[38] The Federal Government could consider this model as it works to develop and implement climate policy actions that are ambitious yet broadly-supported.

Contact

In conclusion, we would like to commend the Government of Canada for seeking input on its approach to climate change and reiterate our belief that the issue is of the utmost importance to investors. We

[35] http://www2.gov.bc.ca/gov/content/environment/natural-resource-stewardship/consulting-with-first-nations/first-nations-negotiations/atmospheric-benefit-sharing-agreements
[36] http://aboriginalcarbonfund.com.au/story/
[37] For example, Alberta created the Alberta Climate Leadership Panel: http://www.alberta.ca/documents/climate/climate-leadership-report-to-minister.pdf, while BC formed a Climate Leadership Team: http://www2.gov.bc.ca/gov/content/environment/climate-change/policy-legislation-programs/climate-leadership-team
[38] http://news.gc.ca/web/article-en.do?nid=1088169; http://news.gc.ca/web/article-en.do?nid=1088149

would be glad to engage further on any of the issues covered in this submission. For follow-up, please do not hesitate to contact me at jbonham@neiinvestments.com, 604 742 8328.

Sincerely,
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