



AUTORITÉ
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Introduction and scope

Greenhouse gas (GHG) emissions and the related climate change consequences are having visible, significant impacts on all spheres of society. As indicated by the Intergovernmental Panel on Climate Change¹ (IPCC), these impacts particularly affect the financial systems, potentially testing their resilience in times of crisis. These considerations and impacts are included in a broader climate risk framework (the terms “climate risks” and “climate-related risks” are both used in this guideline).

Given their likelihood and potential impact, these risks are considered systemic and pose a real threat to global stability, including the stability of the financial industry. These concerns are being addressed by supranational bodies such as the Task Force on Climate-related Financial Disclosures (TCFD)² and the Basel Committee on Banking Supervision (BCBS), which publish climate risk guidance. The resulting recommendations insist on the need for regulators worldwide to take concrete action. Many have accordingly implemented measures to strengthen financial system resilience against, and in turn enhance consumer protection from, the effects of climate disruption and the transition to a lower-carbon economy.

In light of these concerns, the Autorité des marchés financiers (the “AMF”), like its peers, is focusing on strengthening the resilience of the financial sector and the financial institutions it regulates. These institutions are now expected to consider climate-related risks in their integrated risk management processes.

Given that climate change consequences may manifest in multiple ways and over varying time horizons, financial institutions are expected to address vulnerabilities in their business model and operations in order to build their resilience against climate-related risks. Regardless of their size, nature, complexity or risk profile, financial institutions are expected to adopt forward-looking approaches that are holistic, integrated and built on reliable empirical data and sound analyses. This guideline is intended to ensure that financial institutions consider these risks and soundly and prudently manage them to maintain a healthy market.

The guideline considers the overarching climate risk disclosure recommendations published by the TCFD.³ Specifically, for the insurance sector, it considers the recommendations of the Association of Insurance Supervisors⁴ as well as the BCBS⁵

¹ INTERGOVERNMENTAL PANEL ON CLIMATE CHANGE, *Climate Change 2022, Mitigation of Climate Change Sixth Assessment Report*.

² The TCFD’s mandate is to develop climate-related disclosures in order to promote more informed financial decisions and, in turn, enable stakeholders to better understand the financial sector’s exposure to climate-related risks.

³ The new standards S1 and S2 of the International Sustainability Standards Board (ISSB) incorporate the recommendations of the TCFD and may be taken into consideration by the AMF at a later date, in which case the guideline would be updated.

⁴ INTERNATIONAL ASSOCIATION OF INSURANCE SUPERVISORS, *Application Paper on the Supervision of Climate-related Risks in the Insurance Sector*, May 2021.

⁵ BANK FOR INTERNATIONAL SETTLEMENTS, *Principles for the effective management and supervision of climate-related financial risks*, June 2022.

recommendations contained in the Principles for the effective management and supervision of climate-related financial risks.

In addition to the expectations relating to governance, risk management, quantitative risk-related disclosures (climate scenarios and stress testing) and capital adequacy, the AMF clarifies its expectations relating to the fair treatment of clients (FTC) and those relating to climate risk-related financial disclosures, for the purpose of supporting financial institutions in disclosing such information (Section 6 – Expectations for climate-related financial risk disclosures).

Climate-related risks and opportunities

Climate change consequences and the extent to which the community takes them into account could significantly impact financial institutions operating in Québec. In the face of this reality, resilience depends on the level of preparedness for climate-related risks.

For financial institutions, climate-related risks are generally divided into two categories: "physical risks" and "transition risks."

- Physical risks refer to the direct consequences of increasingly frequent, unpredictable and severe extreme weather events such as floods, forest fires and gradual environmental degradation (e.g., biodiversity loss, spread of diseases, or extreme and persistent droughts). These extreme events and their consequences could have major impacts on physical capital, generating economic and financial costs, such as the depreciation of buildings and infrastructure and declines in earnings, and affecting financial institutions' operations.
- Transition risks are generated by the transition to a lower-carbon economy. This transition occurs as a result of new government policies, when decisions and behaviours of stakeholders have evolved or new, alternative technologies have emerged. Transition risks may disrupt investment and business performance and manifest, for example, in the form of devaluations or fire sales of financial assets. Such disruptions could have repercussions for the entire economy.

In the event of a disorderly transition⁶ to a lower-carbon economy, physical and transition risks may give rise to a number of indirect risks. For example, liability and reputation risks may give rise first to climate-related claims under liability insurance policies and then to actions brought directly against financial institutions for failing to manage their climate-related risks. Physical and transition risks may also give rise to financial risks, such as credit risk, insurance risk, liquidity risk, investment risk and market risk. In fact, climate related risks can threaten the long-term viability of a financial institution's operations and business model.

However, while this guideline addresses climate-related risks, financial institutions are expected to pay particular attention to the opportunities created by the transition to a lower-carbon economy. This new reality may, among other things, enable financial

⁶ A disorderly transition assumes that the actions consistent with the Paris Agreement are delayed and not globally coordinated.

institutions to expand their operations to new markets, review their investments and financial product offerings or participate in new renewable energy projects.

Building resilience against climate risks requires financial institutions to address vulnerabilities in their operations and business model. Moreover, to quantify these risks, financial institutions are expected to use forward-looking approaches based on reliable empirical data and sound analyses.

1. Governance expectations⁷

The AMF expects the roles and responsibilities of the members of the board and senior management to be clearly defined so that they may assume their duties in addressing climate-related risks.

1.1. Role and responsibilities of the board of directors

As part of its inherent responsibility to establish a corporate culture, governance framework and strategic objectives that are aligned with the institution's values and long-term interests, the board of directors should act competently and independently when addressing climate-related risks.

In addition to the roles and responsibilities that normally devolve to it, the board should, in particular:

- ensure that issues associated with climate-related risks are addressed when, for example, the main action plans, integrated risk management policies and annual budgets are developed or performance objectives are defined;
- monitor progress in relation to objectives and targets established to address issues associated with climate-related risks;
- ensure that board members attain a level of knowledge and expertise required for good climate risk management;
- ensure that climate risk management is reflected in the remuneration policy for board members, senior management and other key positions; and
- ensure that persons in charge of managing climate-related risks are designated for each of the three lines of defence.

1.2. Roles and responsibilities of senior management

In addition to the roles and responsibilities that normally devolve to it, senior management should, in particular:

- clearly define the roles and responsibilities related to climate risk assessment and management;
- integrate climate risks into the risk appetite framework and internal controls;

⁷ For the AMF's governance expectations, see AUTORITÉ DES MARCHÉS FINANCIERS, *Governance Guideline*, April 2021.

- establish clear processes for identifying climate change issues and opportunities and conduct appropriate monitoring (e.g., through a management committee).

1.3. Strategy

The AMF expects the financial institution to address climate change-related impacts and the transition to a lower-carbon economy in its strategy.

Investors and other stakeholders need to understand how climate-related risks may affect a financial institution's businesses, strategy and financial planning over various time horizons. Such information can, among other things, be used by investors and other stakeholders in assessing the future performance of a financial institution.

It is crucial that the financial institution understand and identify the impact of climate-related risks on its strategic and financial planning when setting its short-, medium- and long-term funding targets. The institution's strategy should therefore include a description of what it considers to be appropriate short-, medium- and long-term time horizons while considering the useful lives of its assets and infrastructure. The financial institution should also provide a description of the specific issues that could occur in each time horizon and that could have a material impact on its businesses.

The financial institution should support its analysis of potential climate risk-related impacts and opportunities with quantitative information, at several levels (e.g., business divisions, sectors and geographic locations), on its core businesses, strategy, and products and services.

In its strategy, the financial institution should implement a transition plan to guide the institution's actions to manage physical risks and the risks associated with the transition towards a lower-carbon economy. The institution should provide the methodology and measurements used to assess its progress against the initial plan.

The institution should describe the climate-related risks it has identified and their impacts on its businesses, strategy and financial planning using various time horizons and, to the extent possible, climate scenarios.⁸ Investors and other key stakeholders should have ready access to this information.

2. Integrated risk management expectations⁹

The AMF expects the financial institution to identify and assess the potential impacts of climate-related risks and to implement mitigation measures, while stating how its activities are integrated into its overall risk management and control framework.

⁸ For the various climate scenarios, the institution should use at least one scenario that limits warming to the level aligned with the latest international agreement on climate change. As at the date of publication of this guideline, that level is 1.5°C above pre-industrial levels, based on the 2015 Paris Agreement.

⁹ For the AMF's expectations regarding integrated risk management, see AUTORITÉ DES MARCHÉS FINANCIERS, *Integrated Risk Management Guideline*, May 2015.

Risks are inherent in the conduct of a financial institution's business and can represent both opportunities and threats. Since climate-related risks are considered to be systemic, they are inherent in the institution's activities and cannot be completely eliminated. They therefore must be managed based on the scope and frequency of the impacts they could have on the financial institution if they materialize. Accordingly, it is important for the institution to adopt strategies, policies and procedures to enable the sound and prudent management of its climate-related risks.

2.1. Identification and assessment

It is the AMF's view that the financial institution should establish strategies, policies and procedures to properly identify and assess its climate risk-sensitive assets and liabilities and to manage them in accordance with its integrated risk management framework and based on its risk appetite.

In this regard, the institution should:

- have or establish appropriate management methods and controls to identify, categorize and assess the potential impacts of climate-related risks on its activities and portfolio of exposures (e.g., operational risk, credit risk, market risk, liquidity risk, insurance risk, etc.) over appropriate time horizons and at several levels (e.g., the business division, sector and geographic location levels). An important aspect of this identification is how the institution determines the relative significance of climate-related risks in relation to the other risks mentioned above;
- use relevant models, including those used for climate scenario analysis, and reliable data on climate-related risks relevant to the institution's activities, particularly concerning risk management and decision making. Where proxies are used, the institution should exercise caution and consider applying a margin of conservatism to address the uncertainty. Where gaps exist in the data collected or used, the institution should consider alternative data sources or provide reasonable approximations to bridge or limit the gap. The data pertaining to physical risks (e.g., geophysical location of vulnerable exposures) and transition risks (e.g., GHG emissions data) relevant to its business activities should be timely and accurate to enable sound risk management and appropriate decision making; and
- continuously monitor developments in integrated climate-related risk management and incorporate any developments relevant to its practices.

2.2. Risk mitigation

The financial institution should establish and regularly update a climate-related risk mitigation plan and describe the actions to be taken to mitigate those risks. The financial institution should also describe the method used to establish a hierarchy of climate-related risks that may affect its activities.

2.3. Risk monitoring and reporting

The financial institution should monitor and report on internal targets to assess its progress in managing its physical and transition risk exposures, consistent with its strategic plan. It

should also monitor and report on relevant internal metrics, limits and indicators to assess its progress in managing climate-related risks.

This could lead to the establishment of an internal reporting system that can produce timely reports to support strategic planning and overall risk management.

3. Expectations regarding climate scenarios and stress testing

The AMF expects the financial institution to carry out climate scenario analysis to assess the impact of climate risk factors on its risk profile, business strategy and business model.

Investors and other stakeholders need to understand how a financial institution measures and monitors its climate-related risks. Access to the metrics used and the targets defined by the financial institution allow investors and other stakeholders to better assess the institution's potential risk-adjusted returns, ability to meet its financial obligations, general exposure to climate-related risks, and progress in managing or adapting to climate change.

In general, climate scenario analysis uses plausible future situations to assess the impact of climate-related risks on a financial institution's activities during an appropriate period.

Such analysis helps achieve objectives such as:

- assessing the impact of physical and transition risks on the financial institution's strategy and risk profile and the resiliency of its business model;
- identifying relevant climate-related risk factors that can drive the financial institution's many financial and non-financial risks, and estimating exposures and potential losses; and
- identifying data quality, assumption and methodology limitations.

The financial institution should include regular climate scenario analyses in its stress testing to guide its strategic planning and risk management. The results should serve as inputs to its financial planning process.

The financial institution should consider a range of plausible climate scenarios¹⁰ over various time horizons. These scenarios should help assess the institution's overall exposure to physical and transition risks, including the potential interplay between these two types of risks, and disclose data, assumption and methodology limitations.

¹⁰ When selecting relevant climate scenarios, the financial institution should consider recognized sources, such as the International Energy Agency (IEA), the Intergovernmental Panel on Climate Change (IPCC), and the Network for Greening the Financial System (NGFS).

4. Expectations regarding capital and liquidity adequacy¹¹

The AMF expects the financial institution to maintain sufficient capital and liquidity to cover its climate risk exposures.

The financial institution should incorporate climate-related risks into its internal capital adequacy assessment process or own risk and solvency assessment process.¹² The institution should consider the capital adequacy requirements applicable to it in severe, yet plausible, climate scenarios, and the climate risks that could materialize beyond the standard financial planning time horizon.

The financial institution should consider the impact of climate-related drivers on its liquidity risk profile and integrate a range of institution-specific and market-wide severe, yet plausible, climate stress events when assessing the adequacy of its capital and liquidity buffers.

5. FTC expectations¹³

It is important that clients be made aware of the increased frequency of extreme weather events and the consequences of physical and transition risks generated by climate change. Even where intermediaries may be involved in offering the financial institution's products and those intermediaries have different requirements, the institution should be proactive and pay particular attention to FTC at all stages of a product's life cycle, particularly with respect to clients' needs and interests, namely:

- during product design, underwriting, marketing and advertising; and
- with respect to the financial institution's or intermediary's disclosures sent to clients before, when and after a product is purchased.

The AMF expects the financial institution to take changes in climate-related risks into account when designing, marketing and advertising new products or altering existing ones, so that its products deliver the benefits and features reasonably expected by the different client groups.

¹¹ For the AMF's expectations regarding capital management, see AUTORITÉ DES MARCHÉS FINANCIERS, *Capital Management Guideline*, May 2015. For the AMF's expectations regarding liquidity risk management, see AUTORITÉ DES MARCHÉS FINANCIERS, *Liquidity Risk Management Guideline*, March 2019.

¹² This process is typically referred to as ORSA (Own Risk and Solvency Assessment) and ICAAP (Internal Capital Adequacy Assessment Process) for deposit institutions.

¹³ For the AMF's expectations regarding sound commercial practices, see AUTORITÉ DES MARCHÉS FINANCIERS, *Sound Commercial Practices Guideline*, November 2022.

5.1. Product design

Product design is a key phase with respect to FTC and includes developing new products and significantly altering existing ones. Product design should rely on the use of adequate information enabling the identification of client needs and interests and the development of products tailored to changes in climate-related risks. Moreover, the product design team should have the competencies to carry out these tasks.

For example, as part of the product approval process, the financial institution should ensure that the products deliver the benefits and features reasonably expected by the target client group. This could mean, among other things, ensuring that the coverage for natural disasters (e.g., floods, forest fires, etc.) is tailored to and reflects the needs of the target client groups. To achieve this, a proper assessment of their needs may be necessary.

In addition, the financial institution should ensure that:

- the documentation related to a product is adapted to the level of financial literacy of the target client group; and
- a product does not exploit potential behavioural biases exhibited by clients (e.g., imitation, overconfidence, representativeness, etc.) in order to artificially create demand for a given product.

5.2. Underwriting process

The underwriting process should be regularly reviewed and updated to:

- formalize and support the climate-related risk factors and criteria used;
- provide for a periodic review of these factors and criteria;
- ensure that a product takes into account the specific needs of certain groups of individuals (e.g., clients residing in areas where the impacts of climate change are greater) in relation to the majority of clients, who meet the standard underwriting criteria.

5.3. Product marketing

The financial institution should ensure that staff and any other persons acting on its behalf who are involved in offering its products receive appropriate training so that they understand the product features pertaining to climate change, extreme weather events and the target client groups.

When a financial institution plans to alter a product or remove it from the market, the institution should determine whether doing so will cause foreseeable harm to its clients or a specific client group and take appropriate action to mitigate such harm. This could involve, for example, refraining from abruptly removing the product from the market or assisting clients in finding other products that may be appropriate for them.

5.4. Product advertising

Before using product advertising, the financial institution should take the necessary steps to ensure that they are accurate, clear and not misleading in relation to climate-related risks, including extreme weather events, and the needs of the target client groups.

5.5. Disclosure to clients

The AMF expects disclosure to clients before, when and after a product offered by the financial institution is purchased to address climate-related risks.

Clients may underestimate their risk exposures and level of tolerance to climate-related risks, including their vulnerability to extreme weather events. Whether products are offered through intermediaries or not, the financial institution should ensure that clients are aware of their actual risk environment and understand the features of the products offered. This should be explained to clients in detail so they can acquire financial products that are suited to their needs.

The complexity of certain financial products can interfere with clients' ability to clearly understand them and make them think that the product covers them against climate-related risks or extreme weather events.

Clients should therefore not be encouraged to acquire a product if they don't understand every aspect of it from the viewpoint of climate-related risks or extreme weather events.

The financial institution should, using a clear and easy-to-understand means of communication, assist clients in understanding changes affecting, for example, coverage under an insurance product. This will enable clients to determine whether the product offered aligns with their climate risk tolerance including, without limitation, when they live in areas prone to floods or forest fires.

Disclosure before or when a product is purchased should enable clients to understand the product and its main features and help them determine whether the product suits their needs and interests. The level of detail of disclosure will vary depending on such factors as the nature and complexity of the product. For example, disclosure of climate-related risks to clients before or when a financial product is purchased should be drafted in clear and plain language, in a manner that is not misleading and presented in a format that is easy to read and understand.

Disclosure of climate-related risks to clients after a product is purchased should be timely and enable them to determine whether the product they hold is still suited to their needs and interests. For example, disclosure to clients after a financial product is purchased should inform them of changes to the contract or changes related to the performance of their contract, the impact of the changes, and their rights and obligations.

The financial institution should provide clients with help in synthesizing and understanding more complex information about the potential effects of climate-related risks on offered products.

6. Expectations for the disclosure of climate-related financial risks

The AMF expects the financial institution, in its disclosures, to publicly disclose its main elements of governance and integrated risk management, and its climate scenarios and climate-related stress testing, in accordance with the five principles for disclosure.

The AMF wishes to strengthen the sound management of climate-related risks by setting specific climate-related financial disclosure expectations. Climate-related financial disclosures contribute to public confidence in the Québec financial system and ensures that relevant information to be publicly available to enable understanding of financial institutions' condition and the risks to which they are exposed.

By providing stakeholders with key climate-related risk and risk management information, these disclosures can build confidence in financial institutions.

The AMF advances five principles for effective disclosure of climate risks:

1. The financial institution should provide relevant, comprehensive information specific to the impact of climate-related risks and opportunities on such things as its markets, businesses, strategy and financial statements. The disclosure should be presented in sufficient detail to enable stakeholders to assess the institution's exposure and approach to addressing climate-related risks. The financial institution should avoid providing generic information or information that does not add to stakeholders' general understanding of climate-related risks, while explaining why a specific risk or issue is not material for the institution.
2. The financial institution should provide information that is clear, balanced and understandable for the general public and that is sufficiently granular to inform more sophisticated stakeholders. Moreover, the financial institution should show an appropriate balance between qualitative and quantitative information and use text, numbers, and graphical presentations in its disclosures as appropriate.
3. The financial institution should maintain a neutral stance in its disclosures, disclosing, in particular, reliable, verifiable and objective information. The information and the financial institution's disclosures should be recorded to ensure they are high quality.
4. The financial institution should disclose information appropriate for its size, nature and complexity. The volume and level of detail of disclosure must be proportional to its size compared to other participants in its market, but also to the complexity of its operations, its systemic importance and the number of geographic locations it has.
5. The financial institution should disclose consistently between the various publications to enable stakeholders to monitor and understand the actions of the financial institution and the impact of climate-related risks on it.

The financial institution may determine the type of report used to disclose the information. Such information should, among other things, be disclosed in a report to shareholders, if it is disclosed to the public, or in a stand-alone report, if it is not. The financial institution should make its climate-related financial disclosures publicly available, including on its

website, no later than 180 days after fiscal year-end in order to maintain an ongoing archive of all disclosures relating to prior reporting periods.

The frequency of climate-related financial disclosures should be annual, although the financial institution may voluntarily present the expected disclosures on a more frequent basis.

The AMF expects the financial institution to disclose its greenhouse gas emissions and its targets used to manage climate-related risks and expects it to assess its performance against its targets.

The financial institution should disclose the information related to the calculation of its absolute Scope 1 and Scope 2 GHG emissions by complying, to the extent possible, with the standards of the GHG Protocol.¹⁴¹⁵ If the recommended reporting standard is not used, the financial institution should disclose how the reporting standard used is comparable.

Disclosure in line with the GHG Protocol standards allows for better aggregation and comparability of GHG emissions across financial institutions. Furthermore, the financial institution should undertake work on how to calculate absolute Scope 3 GHG emissions,¹⁶ if it has not already done so, and establish a timeline to perform the calculation.

Scope 3 disclosure may require obtaining information from various stakeholders. In this context, the financial institution could indicate the proportion of its activities that are subject to Scope 3 reporting and the means it intends to take to enhance its disclosure based on its planning.

If the calculation standard used by the financial institution for Scope 3 GHG emissions is not the Corporate Value Chain (Scope 3) Accounting and Reporting Standard,¹⁷ the institution should disclose how the standard used is comparable to that standard.

GHG emissions and associated metrics should be provided for historical periods to allow for trend and progress analysis, if applicable. In its publications, the financial institution should provide a description of the methodologies used to calculate or estimate the emissions and the metrics.

The financial institution should describe its key climate-related targets such as those related to GHG emissions, water usage, energy usage, etc. The financial institution should also describe any other goals, which may include efficiency or financial goals, financial

¹⁴ WORLD RESOURCES INSTITUTE and WORLD BUSINESS COUNCIL FOR SUSTAINABLE DEVELOPMENT, *Greenhouse Gas Protocol: A Corporate Accounting and Reporting Standard*, revised edition, 2015. For more information, refer to the [Greenhouse Gas Protocol](#) website.

¹⁵ To help distinguish between direct and indirect sources of emissions, enhance transparency and give meaning to the different internal and external uses, “scopes” have been defined to account for and report GHG emissions. Under the GHG Protocol, Scope 1 refers to direct GHG emissions, i.e., arising from sources that are owned or controlled by the reporting company. Scope 2 refers to GHG emissions from the import or export of electricity, heat or steam.

¹⁶ Scope 3 refers to all other indirect GHG emissions arising from the operations of the reporting company, but from sources belonging to another company or a company controlled by the reporting company.

¹⁷ WORLD RESOURCES INSTITUTE and WORLD BUSINESS COUNCIL FOR SUSTAINABLE DEVELOPMENT, [Corporate value chain \(Scope 3\) standard](#).

loss tolerances, avoided GHG emissions throughout the entire product life cycle, or net revenue goals for products and services designed for a low-carbon economy.

In describing their targets, financial institutions should consider including the following:

- whether the target is absolute or intensity based;
- time frames over which the targets apply;
- base year from which progress is measured; and
- key performance indicators used to assess progress against targets.