IIAC ACCVM
INVESTMENT INDUSTRY ASSOCIATION OF CANADA
ASSOCIATION CANADIENNE DU COMMERCE DES VALEURS MOBILIÈRES

TD West Tower | 100 Wellington Street West
Suite 1910, PO Box 173 | Toronto, ON M5K 1H6

416.364.2754 | www.iiac.ca

www.iiac.ca

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Executive Summary

The Investment Industry Association of Canada (IIAC) welcomes the opportunity to put forward its positions and recommendations on this year's theme *Climate Emergency: The Required Transition to a Low Carbon Economy* on behalf of our 120-member firms in Canada's securities industry. Our members are the key intermediaries in Canadian capital markets, accounting for a vast majority of financial advisory services and securities trading and underwriting in public and private markets for governments and corporations.

Under the Paris Agreement, Canada, along with 197 nations and territories, committed to combat climate change and to accelerate the actions needed for a sustainable low-carbon economy. Significant investment will be required over the next decade to meet our climate objectives (i.e. 30% reduction in emissions by 2030) and looking beyond to 2050 (80% reduction). Sustainable finance will play a critical role in supporting the transition to a low-emissions economy as well as incentives that drive change in consumer behaviour.

With this in mind, the Investment Industry Association of Canada recommends that the federal government:

1. Work with the provinces and territories and the private sector to map out the necessary investments, financing requirements, and sources of financing (private-public) to meet Canada's climate objectives.

2. Align Canada's infrastructure strategy with its long-term sustainable growth objectives and leverage private capital in its delivery.

3. Improve the efficiency and functioning of Canada's green bond market through common standards for issuance and disclosure, and targeted tax incentives.

4. Use revenue from carbon pricing to reduce personal and business tax rates and avoid layering regulation on top of carbon pricing.

Recommendation #1

Meeting Canada's 2030 emissions reduction target requires large capital investments in major sectors of the economy, including infrastructure, electricity generation and transmission, oil and gas, building (retrofits), and clean technology. However, the magnitude, scope and horizon of the investment opportunity is not clear. Clarity and visibility are important in order to assemble the capital and expertise and determine financing mechanisms. The government should work with the provinces and territories and the private sector to map out the necessary investments, financing requirements, and sources of financing to meet Canada's climate objectives.

Recommendation #2

Financing mechanisms that draw together public and private capital are critical to funding extensive infrastructure projects in the country aligned with our transition to a low-emissions, climate resilient and energy efficient economy.

For example, financing our grids to deliver low-cost, reliability electricity, and allow more renewable power to be added, will require considerable amounts of private and institutional capital. Coordinated leadership between federal and provincial governments, the financial community and industry will be key to progress. There are also many small and mid-sized infrastructure projects desperate for capital at the local and regional level—for example, building retrofits and telecommunications structures for smart technology.

The government should develop a strategy to harness the available capital and expertise of the private sector, based on a "P3" financing model, to finance both large and small- and mid-sized infrastructure projects. Public funds could supplement private funding, with the benefit of relying importantly on private sector incentives to allocate capital to the right projects.

Large pools of private sector institutional and retail capital are searching for high-yield opportunities. To link supply and demand of capital to capitalize on the opportunity for increased infrastructure spending, the government should i) provide "catalytic capital" to enhance the economic viability of large projects, and ii) structure projects to balance a healthy return to private sector investors with a "social return" to Canadians reflected in increased productivity. If the government can fully leverage public and private resources, more infrastructure projects could be built and operated in a timely and cost-effective manner.

Recommendation #3

Canada is a relatively small player when it comes to green bond issuance, but both supply and demand are growing. Market participants have pointed to number of challenges, including limited liquidity in secondary markets (often investors buy-and-hold), high set-up costs, and nascent definitions (i.e. taxonomies).

The Investment Industry Association of Canada has been working with its Debt Markets Committee and Debt Syndicate Working Group, as well as buy-side institutions (the Canadian Bond Investors' Association) to help build a more liquid domestic market for green bonds. We have made several recommendations in this regard in our paper, ***Opportunities in the Canadian Green Bond Market.***

A consistent, transparent and practical definition of what qualifies as a green bond will accelerate uptake. In this regard, robust third-party accreditation standards and eligibility criteria are critical to promoting product integrity. Initial program eligibility should include green bonds that meet the Green Bond Principles (GBP) developed by our colleagues at the International Capital Markets Association (ICMA), and independent reviews (opinion/rating) should be conducted by organizations such as Sustainalytics and CICERO. The International Organization for Standardization (ISO) has approved the development of an International Green Bond Standard that many believe could improve investor appetite for green bonds.

Several interesting ideas were put forward in the *Final Report of the Expert Panel on Sustainable Finance* to incentivize both the supply of, and demand for accredited green bonds. The Expert Panel recommended time-limited fiscal incentives, including reimbursing first-time issuers for a portion of the set-up cost for issuing green bonds, and providing issuers a cash rebate to subsidize net interest payments. To stimulate demand and retail investment, the Panel recommended that the government increase the contribution room in registered savings or defined contribution pension plans and provide a 'super tax deduction' for contributions to registered retail savings plans earmarked for accredited climate-conscious products, such as green bonds.

Recommendation #4

Environmentally related taxes, such as a carbon tax, attach an explicit cost to emitting pollutants or to undertaking activities with adverse environmental impacts. By putting a direct price on carbon emissions, carbon taxes provide strong incentives for households and individuals to adjust their behaviour—reduce demand for carbon-emitting fossil fuels and adopt more energy efficient technologies.

Revenue generated from a carbon tax should be returned to taxpayers through reductions in personal and business income tax rates (i.e. the carbon tax is revenue neutral). Thus, we would shift away from penalizing work, saving and investment toward penalizing environmentally harmful activities. It would encourage businesses to invest in innovation and technologies to reduce their carbon emissions and energy costs. Giving lump-sum rebates to households does not generate these economic gains.

Lastly, market-based mechanisms, such as carbon pricing, should replace the regulatory approach to achieving environmental objectives. Layering carbon pricing on top of regulation raises costs while reducing the freedom of businesses to respond to the carbon tax in a way that makes sense for their business.