

# BEHIND THE CURVE

## CANADIAN FINANCIAL REGULATORS AND CLIMATE RISK SUMMARY

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## EXECUTIVE SUMMARY

Canada's financial regulators are confronting a reality articulated by Mark Carney in his 2015 "Tragedy of the Horizon" speech: climate change poses an existential threat to the financial system. Over the past decade, regulators and financial institutions have responded with a flurry of climate-related activity, including disclosure frameworks, climate scenario exercises, financed emissions accounting, and voluntary net zero commitments. Yet a decade in, the key question is unavoidable: is it working?

This report concludes that climate-related financial risk in Canada continues to grow, both because physical climate economic damages continue to grow into the tens of billions, and because Canada is increasing its economic exposure to fossil fuels just as the global energy transition accelerates. Canada's regulatory response remains overwhelmingly focused on disclosure and voluntary action, while more robust tools remain largely unused. The result is a widening gap between the scale of the risk and the scale of the response.

Climate-related financial risk is typically divided into physical risk and transition risk. Physical risk refers to the direct and indirect financial consequences of climate-related disasters such as floods, wildfires, storms, and coastal erosion. Canada is already experiencing these impacts. In 2024, Canada's insurance industry faced a record \$9.2 billion in insured property losses, while combined insured and uninsured losses were estimated at roughly \$13 billion. Home insurance premiums have climbed significantly over the past decade, while insurers are simultaneously reducing coverage and withdrawing from high-risk areas.

These impacts are not isolated to the insurance industry. They transmit through the broader financial system. As insurers retreat from high-risk regions, property values may fall and mortgage collateral becomes impaired. The Office of the Superintendent of Financial Institutions has already warned about the mismatch between one-year insurance policies and 20- to 30-year mortgage terms, creating systemic exposure in Canada's housing market. Yet while regulators have identified these transmission pathways, there remains no comprehensive, system-wide accounting of how far these costs can rise before parts of the system begin to stress and break.

At the same time, transition risk continues to grow. Transition risk refers to the financial disruption associated with the global shift toward lower-carbon energy systems. Canada is uniquely exposed due to its concentration in oil and gas production and finance. Roughly 16% of the value of the Toronto Stock Exchange is tied directly to energy companies, while Canada's banks rank among the world's largest fossil fuel financiers.

This exposure is becoming more dangerous as the economics of the energy transition strengthen. Solar power is already cost competitive with fossil fuels in many markets, while solar plus battery storage is rapidly approaching parity. Electric vehicles have already reached upfront price parity with combustion vehicles in China and are expected to do so in Europe by 2030. Meanwhile, geopolitical instability — including the Iran war — is accelerating the push toward domestically-produced renewable energy as a matter of national security. International Energy Agency Executive Director Fatih Birol summarized this shift clearly: "Their perception of risk and reliability will change. Governments will review their energy strategies. There will be a significant boost to renewables and nuclear power and a further shift towards a more electrified future. And this will cut into the main markets for oil."

Independent analysis confirms Canada's vulnerability. Carbon Tracker estimates that roughly 30% of Canadian oil and gas value is at risk in a rapid transition scenario due to the country's relatively high-cost production and dependence on continued growth. The International Institute for Sustainable Development estimates that as much as 66% of new investments in Canadian oil and gas could become stranded in a rapid transition scenario. Yet rather than flagging this rising transition risk, many Canadian financial leaders are actively promoting further fossil fuel expansion, thereby increasing Canada's exposure and dependence.

The report argues that this reflects the core limitation of the current regulatory model. Following Carney's diagnosis, regulators largely adopted a disclosure-only approach built on the assumption that better information would allow markets to voluntarily price climate risk correctly. This led to the rise of voluntary net zero alliances such as the Glasgow Financial Alliance for Net Zero, financed emissions accounting, climate scenario analysis, and disclosure frameworks such as OSFI's Guideline B-15.

But after years of voluntary commitments, the limitations are increasingly evident. Canadian financial institutions continue to maintain large exposures to fossil fuel assets. Many exempt significant portions of their business from net zero commitments. Several have weakened or abandoned commitments altogether. Meanwhile, implementation pathways remain vague or non-existent. The report argues that financial risk concerns not just the "tragedy of the horizon," but the "tragedy of the commons": institutions are unwilling to forego carbon-intensive business because competitors would simply capture the market instead. This phenomenon — often referred to as "credit substitution" — exposes the limits of voluntary action without coordinated regulatory intervention across the financial sector and real economy.

Against this backdrop, the report evaluates the performance of Canada's major financial regulators using a four-part framework: mandate recognition, climate risk disclosure, use of tools beyond disclosure, and transparency. The results reveal a fragmented and uneven response. The following table summarizes the climate-related activity and gaps of the major financial regulators across Canada at both the federal and provincial level, assigning grades from green to yellow to orange to red.

	BOC	OSFI	AMF	OSC	ASC	BCSC	BCFSA	FSRA	ASFI	CPAB
Mandate recognition	Yellow	Yellow	Green	Green	Yellow	Yellow	Green	Orange	Orange	Green
Climate risk disclosure	n/a	Yellow	Yellow	Orange	Orange	Orange	Orange	Red	Red	Orange
Use of other tools	Red	Red	Orange	Yellow	Orange	Red	Red	Red	Red	Red
Transparency	Orange	Yellow	Yellow	Yellow	Yellow	Orange	Yellow	Red	Red	Yellow

BoC	Bank of Canada	BCSC	British Columbia Securities Commission	 substantial action  moderate action  minimal action  little to no alignment
OSFI	Office of the Superintendent of Financial Institutions	BCFSA	British Columbia Financial Services Authority	
AMF	Autorité des marchés financiers	FSRA	Financial Services Regulatory Authority of Ontario	
OSC	Ontario Securities Commission	ASFI	Alberta Superintendent of Financial Institutions	
ASC	Alberta Securities Commission	CPAB	Canadian Public Accountability Board	

Overall, the analysis finds that the Canadian regulatory response remains concentrated almost entirely around disclosure and climate-risk research. On the prudential side, OSFI and Quebec's AMF have led implementation of climate-risk disclosure expectations for banks and insurers. However, neither regulator has yet translated climate risk into explicit capital requirements, mandatory public-facing transition plans, or transparent enforcement.

Meanwhile, major gaps persist elsewhere. Securities regulators have paused efforts to implement standardized economy-wide climate disclosure rules and have been slow to police greenwashing despite acknowledging widespread concerns. Provincial market conduct regulators — despite overseeing sectors directly exposed to rising climate damages and insurance affordability pressures — have largely failed to integrate climate risk into their mandates. Canada's audit oversight body acknowledges the importance of climate risk but has yet to operationalize expectations in a meaningful way.

The report concludes that Canadian regulators are still operating within the original disclosure-only framework articulated in the "Tragedy of the Horizon" speech. Yet climate-related financial risk continues to rise. Other tools in the regulatory toolbox — including capital requirements, collateral frameworks, market conduct regulation, transition planning requirements, supervisory enforcement, and systemic affordability assessments — remain largely unused.

Climate risk is no longer a peripheral or future issue for Canada's financial system. It is already reshaping insurance markets, housing affordability, capital allocation, and long-term economic stability. Regulators have increasingly recognized the problem, but recognition alone is no longer sufficient. The central challenge for Canada's financial regulators is no longer whether climate risk exists, but whether they are prepared to move beyond disclosure and voluntary action toward actively managing it.