Prominence of Circular Economy in Major Canadian Banks

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1.Abstract

One of the key issues highlighted in the CGR 2024 report is the importance of policy, finance, and people to facilitate a transition into a more circular world. The CGR report notes that financing is a key enabler for determining whether an economy continues in a linear pattern of material flow or adopts more circular solutions[1]. This report aims to highlight what Canadian banks are doing to aid in sustainable development and how much of it would fall under the purview of circular economics. The focus of the report would be on the 5 largest banks in Canada, which include Toronto-Dominion Bank (TD Bank), Royal Bank of Canada (RBC), Bank of Nova Scotia (Scotiabank), Bank of Montreal (BMO), and Canadian Imperial Bank of Commerce (CIBC). While most of the banks do not have explicit metrics that focus on circularity, their actions are focused on sustainable development, and it is encouraging to see how different banks are setting targets and allocating funds based on sound ESG metrics. The report concludes with a comparison of different aspects of the banks relevant to promoting circularity, along with the different risks and opportunities Canadian banks face from engaging in circular lending practices.

2.Introduction

A circular economy can be defined as a pillar of sustainable development whereby a linear structure of resource acquisition from the environment and expulsion of used resources back to it is expunged through a cyclic form of resource transition. In a circular economy the introduction of virgin materials from the environment and their disposal from the concerned economy are minimized in an intelligent manner.

According to the WTO 2022 report on climate change and international trade, banks can support circular economy practices by adopting strategies to reduce funding for carbon-intensive projects, enhancing risk management capabilities to identify new low-carbon opportunities, and developing new financial products to support investors in winding down carbon-intensive legacy assets. Additionally, financial markets can pursue greater alignment on low-carbon standards to lower compliance costs and encourage greater scale and investment. In essence, well-functioning financial markets are essential to supporting the transition to a circular economy[2].

Canadian banks are among the largest banks in the world, with five Canadian banks featured in the S&P Global Market Intelligence top 100 banks based on total assets[21]. These banks are collectively labelled as the "big five" due to their dominant position in Canada. With a combined market capitalization exceeding $570 billion, based on publicly available data, it is important that these banks provide adequate financial backing to clients in their transition plans and incentivize the Canadian economy to adopt a more circular pattern of resource usage.

3.Methodology

In the following sections, the actions taken by each of these banks to promote sustainable development in their lending and operation practices will be analyzed, and the aspects of promoting circularity will be decoded. The different banks will then be compared based on relevant commonalities, and finally, the various risks and opportunities associated with promoting circular practices will be stated.

4.Review of relevant reports

4.1.RBC bank

The 2023 annual report from RBC Bank shows total assets exceeding $2 trillion, making it the largest bank in Canada[3]. RBC has set a target to achieve net zero in its lending practices by 2050, and to achieve this, RBC has developed a transition readiness framework that will assess its clients based on a spectrum in terms of the robustness of their transition plans towards achieving a 1.5℃-aligned transition. The framework is adapted for different sectors, including oil and gas and the power generation sector, and is expected to expand to other sectors in the near future[4]. RBC Bank has developed the RBC Climate Blueprint to accelerate the transition to a greener economy and set a sustainable finance commitment of $500 billion by 2025[5]. RBC Bank sources 100% of its global electricity consumption from renewable sources and has launched the RBC Climate Action Institute to foster research and guidance to promote Canada's climate progress. Some of the CE practices of RBC Bank are mentioned in Table 4.1. RBC also uses its Climate Action Institute to bring together decision-making leaders from various industries, governments, and NGO's[6].

Table 4.1: CE projects undertaken by RBC bank

S.No.	Project name	Description	Principles of CE used
1	RBC's Purpose Framework	Creating clarity and structure around plans to help accelerate transition to a greener economy, equip people with skills, and drive more equitable prosperity	Enhancing value retention, innovation and collaboration, systems thinking, and social impacts
2	Net-zero agri-food system	Canadian Alliance for Net-Zero Agrifood launched two key workstreams: the Climate-Smart Farming Initiative and the National Biodigester Network.	Promoting waste to value systems, enhance data collection and monitoring to minimize wastage, collaboration, innovation
3	Climate smart building alliance	Collaboration with prominent builders to increase the use of low and zero carbon building materials; reduce combustion in buildings by supporting a clean grid and accelerating green retrofits and net-zero new builds.	Extending building life, reducing waste and pollution, promoting CE practices in construction sector, Resource efficiency
4	TechforNature initiative	RBC has provided $60+ million to support organizations that advance innovative climate solutions and initiatives that build resilience through natural solutions.	Incentivize innovation and collaboration, building resilience, resilience
5	RBC's climate action institute	To support Canadians in the journey to Net Zero, with a commitment to inform, engage and act on all aspects of the climate challenge through scientific research	Promoting research innovation, fostering collaboration between the general public, private players and policy makers to enhance CE thinking

4.2.CIBC bank

CIBC Bank is the third-largest bank in Canada, with nearly $1 trillion in assets, based on the 2023 annual report. The bank is committed to providing 300 billion dollars towards sustainable finance activities between 2018 and 2030. Their annual report acknowledges the need for system-wide change through collaboration with various stakeholders to achieve its climate goals. The report boasts that CIBC acted as a co-sustainability structuring agent and joint bookrunner representing the largest aggregate sustainable corporate bond issuance in Canada of $1.05 billion for Hydro One Inc[7]. The bank had also provided limited partnership investments by partnering with six funds that provide growth capital to emerging climate and energy transition technology companies to help the global community transition to a net-zero carbon economy. The bank supports academic research through sustainable finance initiatives with McGill University, Schulich School of Business, and the University of Calgary's Energy Transition Centre[8]. CIBC has also launched the Sustainable Finance Guarantee pilot program, which is a risk-sharing solution aimed at helping with lending activities that contribute to decarbonizing the economy, providing up to $1 billion in financing over the next three years. The bank has announced a new sustainable finance offering in collaboration with Export Development Canada to help support export-oriented Canadian businesses transitioning towards more sustainable operations. It was recognized by Global Fiance magazine as the Best Investment Bank in Canada and for Outstanding Leadership in Sustainable Infrastructure Finance[9]. Though the bank has not mentioned any projects that are explicitly circular in their sustainability and climate reports, some of the more circular initiatives are mentioned in Table 4.2 below.

Table 4.2: CE projects undertaken by CIBC bank

S.No.	Project name	Description	Principles of CE used
1	Sustainability issuance framework	Guides future issuance of sustainable fundraising	Enhancing value retention, innovation and collaboration, systems thinking, and social impacts
2	Sustainable finance guarantee	Collaboration with export development Canada to help with lending activities that contribute towards energy efficiency, emission-free power generation, pollution prevention and control and allows for up to $1 billion financing in the next 3 years	Reducing pollution, enhancing transition opportunity, collaboration
3	Energy, infrastructure and transition advisory services	Assisting clients in assessing opportunities and risks with technical knowledge and expertise in renewable power and key energy transition sectors	Reducing pollution, enhancing transition opportunity, expertise, risk management
4	Sustainable trade finance	Increase transparency across value chains whilst meeting working capital needs of clients	Assessing risks and opportunities in client value chains, increasing transparency
5	Climate center	An education hub for clients to learn how to minimize GHG emissions by making changes to their living, transportation and investment choices	Enhancing knowledge to minimize wasteful practices through education,promoting behaviour change

4.3.BMO bank

The 2023 annual report of BMO states that they have assets of nearly $1.3 trillion and highlights BMO's climate ambition to be a lead partner in a transition to a net-zero world by pledging to mobilize $300 billion for their clients focused on sustainable outcomes by 2025[10]. Through supporting sustainable bond underwriting, equity and debt financing, ESG advisory services, and loans for sustainable projects, BMO's Energy Transition and Sustainable Finance Groups are helping their clients pursue opportunities in the global economy's shift in the production and consumption of energy. BMO has promoted CE practices through several projects, as visible in Table 4.3. BMO was among the first Canadian banks to sign the United Nations Principles for Responsible Banking (UNPRB) in 2021, is committed to a sustainable future, and was ranked for the 19th straight year on the Dow Jones Sustainability Index[11]. The bank is also collaborating with several universities, like the University of Saskatchewan, the University of Calgary, and the University of Waterloo, on various areas ranging from regenerative agriculture to green hydrogen, to foster positive impacts on society. BMO has also created an impact investment fund of $350 million to invest in projects that are themed around decarbonization, the circular economy, and sustainable food and agriculture[12].

Table 4.3: CE projects undertaken by BMO bank

S.No.	Project name	Description	Principles of CE used
1	BMO Radicle	Team of 100 dedicated carbon professionals who bring deep thinking expertise and provide sustainability solutions for clients	Promote CE practices in client operations through education and sustainability solutions
2	Climate Smart software	Training and sustainability advisor-supported program that enables businesses to start their transition to net-zero by measuring, reducing and reporting their corporate carbon footprint.	Data collection and assimilation to provide clearer path towards CE goals by capacity building and carbon footprint management
3	BMO retrofit program	Collaboration with the Canada Infrastructure Bank (CIB) to offer a financial ecosystem for retrofitting buildings by providing clients access to impact capital linked to greenhouse gas emissions reductions.	Enhancing building life, reducing pollution, collaboration, impact investment
4	Greener Future Financing program	Developed to help agriculture businesses looking to build future-ready, climate resilient operations for small and medium sized enterprises	Enhancing resilience, reducing emissions, promoting performance monitoring, capacity building
5	BMO Climate institute	A center of expertise that convenes climate knowledge, data and resources, to partner in a transition to a net-zero world by bridging science, policy, finance, and economics	Enhancing collaboration, building tools and capabilities focusing on decarbonization, resilience, social impact, and biodiversity

4.4.Scotiabank

The 2023 annual report of Scotiabank boasts $1.4 trillion in assets and has won several awards, including the Best Bank for Sustainable Finance in Canada by Global Finance. The report claims that by providing innovative sustainable finance advice tailored to their clients needs, they help their clients realize their ESG goals[13]. Scotiabank is committed to net-zero operations and financial emissions by 2050 to address climate risks and opportunities by focusing its actions for a lower-carbon economy. Scotiabank has mobilized $132 billion of its target of raising $350 billion for climate-related finance by 2030. The bank has also launched a renewed Climate Change Centre of Excellence site featuring Scotiabank's $10 million Net-Zero Research Fund, of which Scotiabank has distributed $3 million to 31 research projects and leading initiatives exploring decarbonization solutions and climate-related systems change, and has carried out discussions with agriculture clients and identified ten guiding principles shaping sustainable solutions to drive profitable growth in Canada's agriculture industry[14].

In 2022, the Bank secured 67% of electricity from non-emitting sources, achieved a 29% absolute operational emission reduction, and has committed to securing 100% non-emitting electricity in Canada by 2025 and globally by 2030. Some of the notable CE engagements made by Scotibank are noted in Table 4. Scotiabank has also set a high internal carbon price of $65 per tonne and is planning to raise this to $80 per tonne in 2024. The bank is reducing paper waste by onboarding clients digitally and providing welcome kits made out of recycled paper. The bank is reducing electronic waste by refurbishing old equipment and donating it to charities, and it has partnered with Roger Communication to improve the collection of used corporate cellular devices to be resold or disposed of in an eco-friendly manner[15].

Table 4.4: CE projects undertaken by Scotiabank

S.No.	Project name	Description	Principles of CE used
1	Net-Zero Research fund	Provides $10 million in grants to leading think-tanks and academic institutions that are supporting key sectors in their efforts to decarbonize.	Promoting innovation, fostering ideas that support CE practices, enhancing collaboration
2	Volunteer coastal clean-ups	Branches in the Caribbean volunteered to clean up 7000 pounds of waste from local beaches	Protecting bio-diversity, promoting healthier environments, environmental stewardship, community engagement
3	Greening our communities	Planting local trees, promoting kitchen gardens through seedling starter packs, recovering and protecting native plants	Protecting bio-diversity, promoting healthier environments, building community resilience
4	Thought leadership	Form of research, engagement with industry and clients, and hosting conferences in areas of importance in the climate-change arena	Promoting stakeholder engagement, knowledge sharing, addressing issues of adopting CE practices

4.5.TD bank

The TD Bank's 2023 annual report proclaims total assets of nearly $2 trillion and that they have launched a new Sustainable and Decarbonization Finance Target to support customers, clients, and the communities they serve by mobilizing $500 billion by 2030[16]. TD Securities agreed to purchase 27,500 metric tons of Direct Air Capture (DAC) carbon dioxide removal credits over a four-year period from STRATOS, 1PointFive's first DAC plant currently under construction in Texas. The report also boasts that TD was ranked among the top sustainability companies in the Dow Jones Sustainability Index for the ninth consecutive year and was named North America's Best Bank for Corporate Responsibility by Euromoney.

The bank has policies and procedures that outline how E&S risk is identified and managed within the bank's non-retail lending portfolio. Additionally, the bank has been a signatory to the Equator Principles (EP) since 2007 and has embedded the EP into its E&S risk process for applicable project financing transactions[17]. Some of TD's notable CE practices are mentioned in Table 5. The bank has over 280 locations certified by LEED that promote energy efficiency and resource conservation. The bank conducts biennial materiality assessments to prioritize sustainability-linked topics to report on and prepare for future strategies. The bank is a member of Circular Economy Leadership Canada (CELC) and has provided philanthropic support to various organizations like McGill University's Centre for Innovation in Storage and Conservation of Energy, the VIBE Arts-reduce, reuse, and remake program, the Furniture Bank's Repair Workshop Program, and the Textile Museum of Canada's Lifecycle of a Textile Program[18].

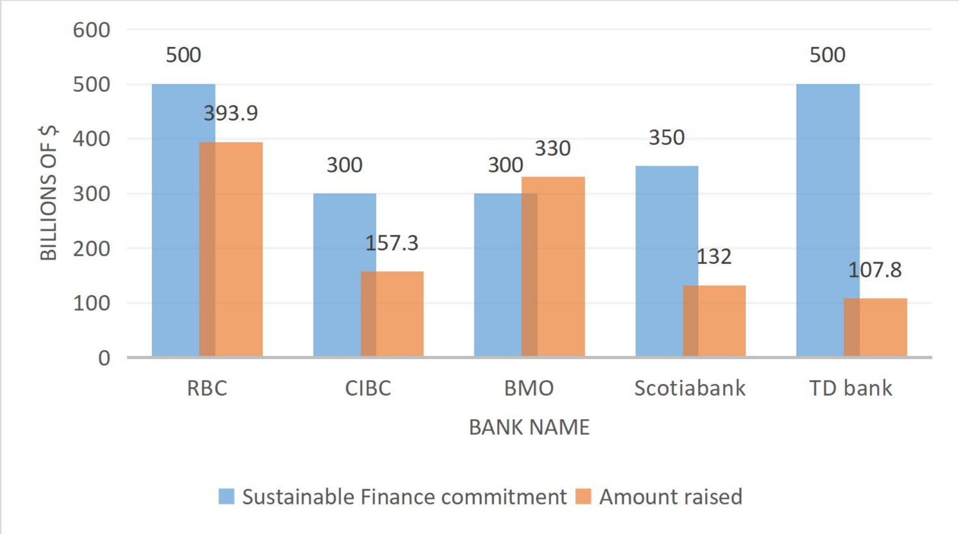
Table 4.5:CE projects undertaken by TD bank

S.No.	Project name	Description	Principles of CE used
1	Low Carbon Patent pledge	Coalition of pledgers that provide the rights to use their pledged patents without charge providing third parties with a patent pool to develop new and innovative ways to combat climate change	Technology sharing to accelerate adoption of CE practices through low open innovations, collaboration, technology transfer
2	TD Tree Days Program	80000 volunteers participated in the restoration of green spaces between 2010 and 2022	Carbon sequestration, bio-diversity conservation, Circular resource flows, community engagement
3	ALUS New Acre Project	Environmental program that supports farmers and ranchers in restoring cleared unproductive land, back to its natural state	Community resilience, water management, soil health and nutrient cycling, stakeholder engagement, ecosystem restoration
4	TD Ready challenge	Focuses on helping to develop innovative, impactful and measurable solutions designed to help people and communities disproportionately affected by climate change by awarding grants.	Fostering innovation, building resilience, impact measurement, community empowerment
5	Boreal Wildlands Carbon Project	$10 million investment in helping conserve Boreal Wildlands which is a massive carbon sink in Hearst, Ontario	Carbon sequestration, bio-diversity conservation, water management, soil health and nutrient cycling, natural capital

5.Data Analysis

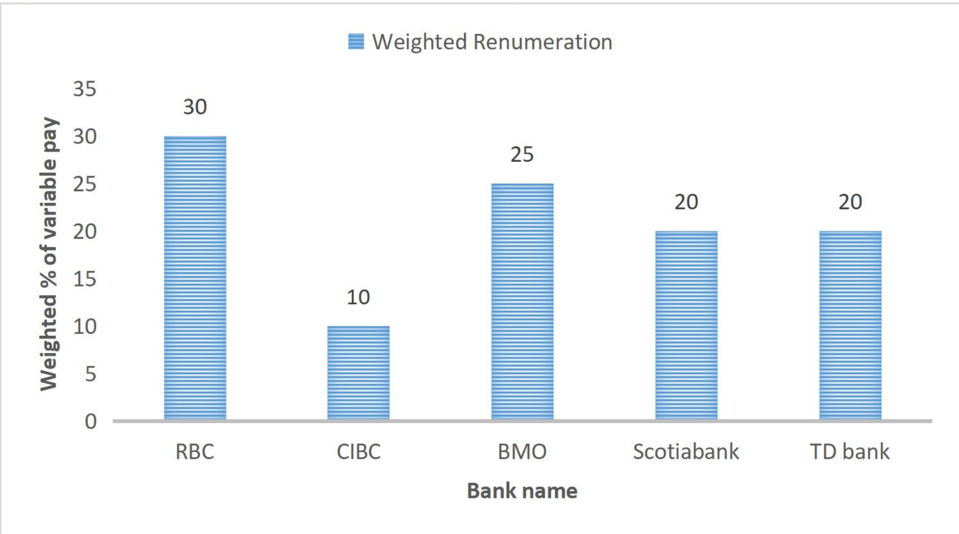
All of Canada’s “Big Five” banks seem to agree on taking action and raising capital for climate finance (Fig. 5.1). It is interesting to note that RBC and BMO have set 2025 as their target year while the other banks have set 2030 as the target year. All the banks use a variety of investment vehicles to achieve these targets, ranging from loans to sustainable bonds. RBC is clearly leading the pack in this scenario, indicating the keenness of its stakeholders to promote sustainability while CIBC has the lowest commitment amongst all the banks. Although the amount raised by the banks might not be purely for promoting circularity, a proportional share of these amounts can be assumed to be allocated for promoting circularity.

Fig. 5.1: Sustainable finance commitment of "Big Five" Canadian banks in respective target years



Another parameter that the TCFD recommends assessing is the employee remuneration linked to achieving ESG goals set by the bank's stakeholders, as this will prompt executives to take more action towards sustainable goals, which in turn will accelerate the adoption of circular practices in the economy (Fig 5.2). Here again, RBC and BMO lead the pack with 30% and 25% of the variable pay of their executives linked to achieving ESG goals, while CIBC only allocates 10%.

Fig 5.2: Executive remuneration to achieve ESG goals



Other aspects that can be assessed are whether these banks are members of Circular Economy Leadership Canada (CELC), whether they have established dedicated climate institutes, and the number of sustainable finance memberships and partnerships these banks have (Table 5.1). We can also assess the emission targets set by the banks in their lending practices to three key sectors, namely, power, energy, and the automotive industry (Fig 5.3).

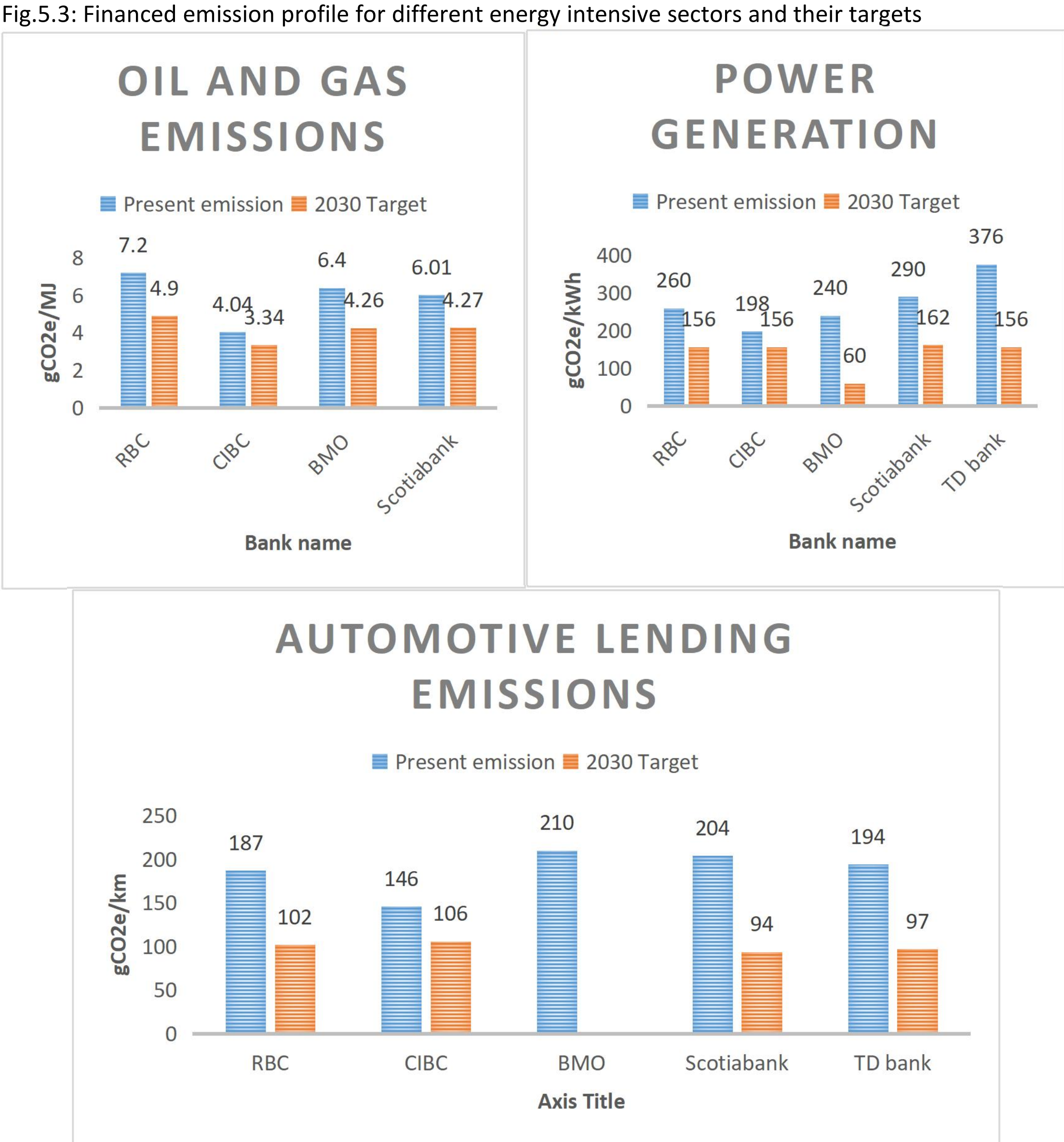
The financed emissions from the oil and gas industry for TD Bank could not be included as they published their data using the CO_2e/$ metric. While comparing the other banks, it is evident that RBC has the highest emissions and targets for this sector while CIBC has the lowest. In terms of power generation emissions, TD Bank leads the pack with the highest emissions, while BMO Bank has set the lowest target. However, in terms of automotive financing, BMO has the largest emission profile and has not set a 2030 target as they plan on transitioning their share of new auto loans to finance only EVs by 2035.

Table 5.1: Other aspects linked to circularity

	RBC	CIBC	Scotiabank	TD bank	BMO
CELC member	✗	✓	✓	✓	✗
Number of collaborations linked to sustainability	21	7	27	24	23
Dedicated climate institute	✓	✗	✗	✗	✓

While RBC and BMO are not members of CELC, they are the only banks that have climate institutes dedicated to fostering research and collaboration to promote climate action. It is also interesting to note that all banks barring CIBC have over 20 collaborations and partnerships mentioned in their sustainability and climate reports, while CIBC has only mentioned 7.

Fig.5.3: Financed emission profile for different energy intensive sectors and their targets

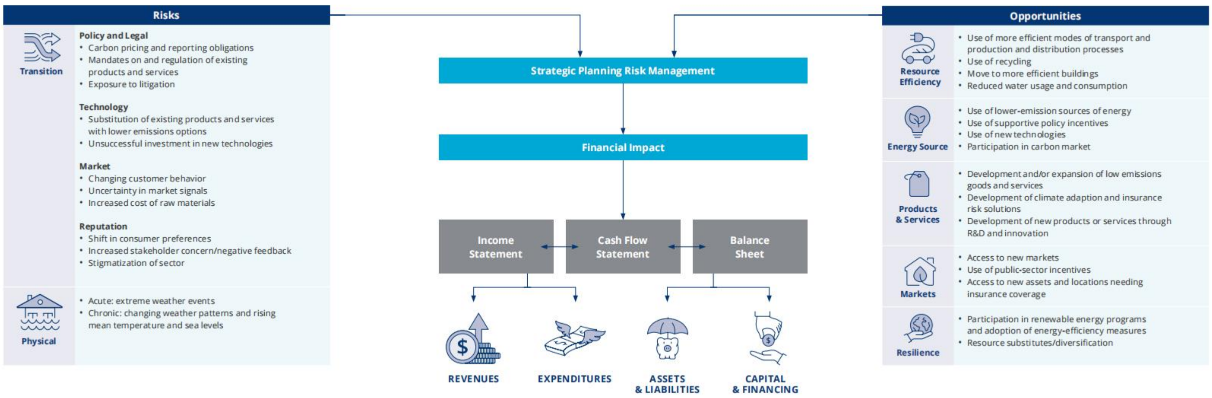


6.Risks and Opportunities

All of the ‘big five’ banks in Canada have comprehensive risk management methodologies (Fig 6.1) based on governance, strategy formulation, risk assessment, metrics, and targets[20]. They have developed these frameworks based on the guidance from the Task Force on Climate-Related Financial Disclosure (TCFD) and have a similar overview of encouraging circularity in their lending practices (Fig. 6.2). The banks have carried out simulations based on the International Energy Agency’s Net Zero Emissions by 2050 Scenario (“IEA NZE Scenario”), which creates sector-specific pathways for energy reduction aligned with a 1.5°C temperature ambition by 2050 to better assess their position and build resilience in their operations.

Fig 6.1: Core elements of climate related financial disclosures[19]

Fig 6.2: Risks and opportunity overview[19]



The risks of prominent banks not adopting circular practices include:

- Policy and legal challenges from a climate conscious regulations as well as litigation risks
- Technological challenges from substitution of existing financed projects with less polluting alternatives and investing in new technologies that are unsuccessful
- Market challenges from changing customer behaviour and increased cost of raw materials
- Reputation risks due to shift in customer preference and increased stakeholder concerns
- Physical risks that can be acute due to extreme weather evens or chronic due to changing weather patterns

The opportunities for prominent banks from adapting more circular practices include:

- Enhancement in resource efficiency and water usage in the banks own operations, the clients they serve and the societies they operate in.
- Cleaner energy sources and benefits from policy incentives and adoption of newer technologies in the market.
- Development or expansion of low emission goods and services, climate adaptation and insurance risk solutions, and galvanizing financial resources for R&D of new products and services
- Access to new markets, assets and insurance solutions.
- Building resilience in their own operations by building resilience for their clients and the larger society.

7.Conclusion

Based on the survey of the annual reports of the top 5 banks in Canada, several initiatives have been undertaken by each of the banks, including adherence to the Equator Principles and the publishing of annual sustainability and climate reports. One of the common metrics that encompasses all the banks is the commitment of hundreds of billions of dollars by 2030 for climate finance initiatives. The key principle that banks focus on to enhance circularity in their operations is collaboration with external and internal stakeholders. The International Sustainability Standards Board (ISSB) issued its inaugural standards: IFRS S1, General Requirements for Disclosure of Sustainability-Related Financial Information, and IFRS S2, Climate-Related Disclosures, to succeed the disbanded TCFD framework and set a benchmark for the banks to set in their lending practices in the coming years. Prominent Canadian banks are aware of the risks and opportunities of promoting circularity in their lending practices and are keen to mitigate risks and maximize opportunities. However, the transitional risks of shifting from a linear economy to a circular economy pose a serious challenge that needs to be overcome in the coming decades, and banks, stakeholders, policymakers, and society as a whole should complement each other to build positive sentiments around circular lending practices, encouraging banks to set ambitious targets that not only serve the Canadian society but also serve as an inspiration to the global community.

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