

POLICY

Climate Change Policy



Authority Signatures



Approved by: Martine Irman, Chair - Board of Directors

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Endorsed by: Lorraine Audsley, Chair – EDC Risk Management Committee

14/11/2018



Recommended by: Catherine Decarie, Senior Vice-President, Corporate Affairs

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Control Sheet

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1. PURPOSE AND SCOPE

1.1. PURPOSE

Climate change is a significant and complex global challenge that presents a range of risks and opportunities to countries, businesses and individuals. If this challenge is to be addressed effectively, it will require action from all sectors of the global economy, as well as governments and individuals.

This Climate Change Policy provides the principles and commitments that will guide EDC's approach to the organization's climate change-related risks and opportunities. It is intended as both an external facing Policy, and as an internal guide to EDC's decision-making.

1.2. SCOPE

Unless otherwise stated, this Policy shall apply to all of EDC's business.

This Policy shall be read in conjunction with the applicable Policies, Guidelines, Standards, and Procedures (see Section 7 of this Policy).

2. POLICY REQUIREMENTS

2.1. GUIDING PRINCIPLES

EDC supports the *2015 Paris Climate Change Agreement*, which aims to strengthen the global response to the climate change challenge and spur a transition to a low carbon and climate-resilient future. EDC recognizes that it can contribute to the Paris Agreement's aims through the choices we make about the provision of financing, insurance and knowledge products and services.

As Canada's export credit agency, EDC's mandate is to support and develop Canada's export trade and Canadian capacity to engage in that trade and to respond to international business opportunities.

EDC's large and diverse portfolio includes companies operating in carbon intense sectors that are important to the Canadian economy, as well as businesses at the leading edge of the clean technology sector. EDC believes that companies across this spectrum can play a role in the transition to a lower carbon and climate-resilient economy. EDC also believes that the most important contribution it can make is through continuing to provide its products and services in support of our customers' innovation and transition, as we build the portfolio of the future.

EDC's decision-making shall continue to be guided by commercial considerations, evolving market trends, sound risk management principles and industry best practice.

2.2. COMMITMENTS

With the above guiding principles in mind, EDC shall:

- Measure, monitor, and, commencing in 2020, set targets to reduce the carbon intensity of its lending portfolio;
- Be more transparent about its approach to carbon intense sectors, starting with a strengthened thermal coal position (see Appendix A);
- Enable its customers to respond to climate-related risks and opportunities through financing, insurance and knowledge products and services, while leveraging its international risk expertise;
- Increase EDC's business focused on clean and low carbon technology;
- Work toward implementing the recommendations of the *Task Force on Climate-Related Financial Disclosures*;
- Encourage its customers operating in carbon intense sectors to disclose climate-related information, starting with annual greenhouse gas emissions and, where appropriate, clear emissions reduction targets;
- Integrate climate-related risks and opportunities, such as carbon intensity, into EDC's risk assessment processes, alongside other credit and non-credit considerations, to inform decision-making for both project and non-project transactions;

- Engage actively with its financial sector peers to advance dialogue and action around climate-related risks and opportunities; and
- Continue to report on and improve EDC's operational environmental footprint.

3. ROLES AND RESPONSIBILITIES

This **Climate Change Policy** is a Board Policy and, as such, is approved by the Board of Directors.

The SVP, Corporate Affairs shall be the Policy Owner of this **Climate Change Policy** and, as such, shall be responsible for its development, implementation and maintenance. He/she shall also be accountable for its execution and effectiveness.

The Director, Environmental and Social Risk Management shall be the Policy Monitor. The Policy Monitor may delegate his or her responsibilities as Policy Monitor to an alternative and credible person.

Internal Audit, as the Third Line of Defence, shall be responsible for providing Independent Assurance to the Board of Directors and Executive in accordance with EDC's **Internal Audit Charter**.

4. REPORTING REQUIREMENTS

The table below sets out the minimum reporting requirements for the Climate Change Policy.

Table 1: Reporting Requirements

Report	Frequency	Description	Distribution
Corporate Sustainability and Responsibility Quarterly report the Board	Quarterly	Provide a summary of any relevant updates regarding the implementation of EDC's Environmental and Social Risk Management Framework , which includes the Climate Change Policy	<p>Distributed by:</p> <ul style="list-style-type: none"> VP, Corp. Sustainability & Responsibility Operational Risk Management Committee (ORMC) <p>Distributed to:</p> <ul style="list-style-type: none"> The Board Risk Management Committee (BRMC)
Report on the Implementation of the recommendations of the Task Force on Climate-Related Financial Disclosures (TCFD)	Annually	In EDC's Integrated Annual Report, provide an overview of EDC's implementation of the TCFD recommendations	<p>Distributed by:</p> <ul style="list-style-type: none"> SVP, Corporate Affairs <p>Distributed to:</p> <ul style="list-style-type: none"> Disclosed externally in EDC's Annual Report

5. REVIEWS AND REVISIONS

The **Climate Change Policy** shall be reviewed and approved every year, or more frequently should circumstances require. A full consultative review will occur every 3-5 years.

Any revisions to, or rescinding of, this **Climate Change Policy** shall be accompanied by supporting detail on the material changes and associated rationale.

Roles and responsibilities with regard to approval, revision and/or rescinding of the **Climate Change Policy** shall be as described in the table below.

Any minor off-cycle adjustments to this **Climate Change Policy** may be made in adherence with and as set out in the Policy of Policies.

Table 2: Reviews and Revisions

Document	Review & Recommend for Approval, Revision (or Rescinding)	Approval	Approval Cycle
Climate Change Policy	SVP, Corporate Affairs and endorsed by an Executive-level committee	Board of Directors	At least every year, unless deemed otherwise by the Board

6. ESCALATION AND EXCEPTIONS

All exceptions or instances of non-compliance to this **Climate Change Policy** shall be assessed by the Policy Monitor and escalated to the Policy Owner for resolution or approval.

Requests for Policy exceptions or instances of non-compliance must:

- Identify the applicable section(s) of the Policy to which the exception applies;
- Assess the risk(s) that arises from the proposed exception(s);
- If applicable, outline the appropriate controls to mitigate these risks; and,
- Specify the review or effective period of the Policy exception.

A process shall be established by the Policy Owner to identify, record and report on exceptions or instances of non-compliance with this Policy. Policy exceptions will be disclosed.

7. OTHER RELATED DOCUMENTS

The following documents relate to the Climate Change Policy:

- **Environmental and Social Risk Management Policy** – under review
- **Environmental and Social Review Directive** – under review
- **Human Rights Policy** – under review
- **Disclosure Policy** – under review
- **Environmental and Social Risk Management Framework** – under development
- **Operational Risk Management Framework (ORMF)**
- **2015 Paris Climate Change Agreement**
- **Final Recommendations of the Task Force on Climate-Related Financial Disclosures (2017)**

8. EFFECTIVE DATE

The Climate Change Policy shall take effect on January 28, 2019.

9. DEFINITIONS

In this Policy, the names of EDC teams and groups are capitalized, and refer to the teams/groups as set out in EDC's corporate directory.

Capitalized terms other than name of EDC teams or groups are defined terms, as set out below.

Table 3: Definitions

Terminology	Definition
2015 Paris Climate Change Agreement	<p>An international agreement under the auspices of the United Nations Framework Convention on Climate Change (UNFCCC) that aims to strengthen the global response to the threat of climate change by:</p> <p>(a) Holding the increase in the global average temperature to well below 2 °C above pre-industrial levels and to pursue efforts to limit the temperature increase to 1.5 °C above pre-industrial levels, recognizing that this would significantly reduce the risks and impacts of climate change;</p> <p>(b) Increasing the ability to adapt to the adverse impacts of climate change and foster climate resilience and low greenhouse gas emissions development, in a manner that does not threaten food production;</p> <p>(c) Making finance flows consistent with a pathway towards low greenhouse gas emissions and climate-resilient development.</p>
Board of Directors	EDC's Board of Directors.
Board Risk Management Committee (BRMC)	Board-level Risk Management Committee, as set out in the ORMF.
Executive	The cadre of managers that provides the most senior level of review, guidance and decision-making.
First Line of Defence	Teams or individuals who assume, own, and manage risk.
Guideline	A document which sets out the parameters within which EDC employees should act and the standards which should be defined to achieve expected outcomes and Policy requirements. This includes mandatory controls, or alternatively guidance, recommendations or best practices.

Terminology	Definition
Independent Assurance	The process for assuring the Board and Senior Management that the Policy and its related Guidelines (or Standards), Procedures and Frameworks are effectively designed and functioning as intended.
Operational Risk Management Framework (ORMF)	The overarching Governance Structure for establishing effective operational risk management in respect of the entire organization.
Policy	A document which sets out the principles or protocols to guide decisions and achieve expected outcomes. Policies are derived from EDC’s mandate, missions, strategic objectives and Risk Appetite.
Policy Monitor	The authority responsible for monitoring, ensuring and attesting to compliance with the Policy, and also responsible for reporting instances of non-compliance to the Policy Owner (if Policy Monitor is different from the Policy Owner).
Policy Owner	The senior Executive responsible for the matters addressed by the Policy. This includes responsibility for ensuring the Policy’s development, implementation and maintenance.
Procedures	Step-by-step instructions (including process maps where available, and job aids) to complete a task to implement Policies and Guidelines (or Standards). These documents should describe a series of actions on how to perform an activity to achieve expected outcomes.
Recommendations of the Task Force on Climate-Related Financial Disclosures (TCFD)	Appointed by the Financial Stability Board, the TCFD developed voluntary recommendations for climate-related financial disclosures that aim to provide consistent, reliable, clear, and decision-useful climate change information to lenders, insurers, and investors. The Task Force published its final report – Recommendations of the Task Force on Climate-related Financial Disclosures—at the end of June 2017. EDC announced its support for the Recommendations in September 2018.
Second Line of Defence	Individuals and teams oversee risk-taking.
Standards	Requirements that are mandatory, prescriptive and intended to be binding on EDC’s employees.
Third Line of Defence	EDC’s Internal Audit, which is responsible for providing Independent Assurance to the Board of Directors in accordance with EDC’s Internal Audit Charter.
Three Lines of Defence Model	A governance model that distinguishes organizational roles and responsibilities via three lines of management: First Line of Defence, Second Line of Defence and Third Line of Defence.

APPENDIX A: Thermal coal position

From the Effective Date of this Policy, EDC shall no longer provide new:

- financing for the development, construction or expansion of coal-fired power plants (CFPPs), regardless of geographic location, unless equipped with carbon capture and storage or equivalent emissions reduction technology satisfactory to EDC¹;
- financing for the development, construction or expansion of thermal coal mines or other projects solely focused on supplying coal-fired power plants (e.g., thermal coal terminal, rail links);
- financing to companies for which thermal coal power generation and/or thermal coal mining account for more than 40% of their revenue², as determined by EDC;
- financing for an existing CFPP unless the financing will be used to equip that facility with carbon capture and storage or equivalent emissions reduction technology satisfactory to EDC.

EDC shall also begin to transition out of its credit insurance relationships with Canadian customers whose business is primarily focused on the thermal coal power generation and/or thermal coal mining sectors.

¹ This position also applies to financing for new industrial projects, if powered by captive CFPPs, even if the financing is not specifically earmarked for the captive plant.

² However, if the company has between 40-60% of revenue derived from thermal coal-related business, EDC will consider support provided that the company can demonstrate that it is implementing a credible, public low carbon transition plan within the next five years. EDC would also consider support for such companies if the financing is specifically in support of a renewable energy project that meets EDC's corporate sustainability and responsibility requirements.