



## Proxy Alert: Shareholder proposal on Climate Action Plan at Bank of Nova Scotia

**Company:** Bank of Nova Scotia

**Ticker Symbol:** BNS (TSX)

**Annual Meeting Date:** 4 April 2023

**Proponent:** Trottier Family Foundation, supported by the Shareholder Association for Research and Education (SHARE)

### RECOMMENDATION: Vote FOR Proposal #2 - Shareholder proposal on Climate Action Plan Expectations

- Shareholders are asking the Bank of Nova Scotia to report to shareholders on its plans to establish and evaluate the effectiveness of its clients' net zero plans in relation to the bank's 2030 emission reduction and net zero goals.
- Such a report will provide shareholders with information they need to assess Bank of Nova Scotia's framework and expectations for its client's transition plans. This framework is crucial to understanding the bank's progress toward meeting its climate goals.
- Current reporting refers to client engagement but the standards against which the bank assesses its clients plans remain opaque.
- Bank of Nova Scotia remains internationally and domestically a leading lender to the fossil fuel sector.
- Many of Bank of Nova Scotia's global peers have published their guidelines for evaluating the credibility of client climate action plans, which are being requested in this shareholder proposal.

### CLIMATE CHANGE REPRESENTS A PRESSING MATERIAL RISK FOR INVESTORS

The Intergovernmental Panel on Climate Change (IPCC) has advised that greenhouse gas (GHG) emissions must be halved by 2030 to limit global temperature rise to 1.5 degrees Celsius. Every

**VANCOUVER OFFICE** Suite 510, 1155 Robson Street, Vancouver, BC V6E 1B5  
**TORONTO OFFICE** Unit 412, 401 Richmond Street West, Toronto, ON M5V 3A8

T 604 408 2456 F 604 406 2525

[share.ca](https://www.share.ca)

further incremental increase in temperature rise will result in increasingly severe physical, transition and, ultimately, systemic risks for investors, companies and economies alike. Conversely, The IPCC also states that “near-term actions that limit global warming to close to 1.5 degrees C would substantially reduce projected losses and damages related to climate change in human systems and ecosystems, compared to higher warming levels.”<sup>1</sup>

The scale and urgency of the climate crisis has prompted calls for high emitting companies to produce and disclose climate transition plans, and by extension, for banks to make the same requirements as their high-emitting corporate lending clients. Corporate climate transition plans are emerging as an essential tool in the toolbox.

## THE PROPOSAL

Proposal 2 in the 2023 Management Proxy Circular asks the Company to report on its plans to establish and evaluate the effectiveness of its clients’ net zero plans.

The Proponent believes taking such action would serve the long-term interests of the Company by demonstrating to investors how it is mitigating its climate-related systemic, market, competitive, regulatory, and reputational risks.

**As such, we urge a “Yes” vote on this proposal.**

**RESOLVED:** Shareholders request that Bank of Nova Scotia (the “Company”) issue a report, at reasonable expense and excluding confidential information, that articulates its expectations for net-zero transition plans of high-GHG emitting clients and how the Company assesses the sufficiency of those transition plans year over year in relation to the bank’s 2030 emissions reduction and net zero goals.

## Transparency needed for Bank’s climate pledges to be credible

Climate Transition Plans are “a vital tool to demonstrate to capital markets and stakeholders that an organization is committed to achieving a 1.5-degree pathway, and that its business model will remain relevant (i.e., profitable) in a net-zero carbon economy.”<sup>2</sup>

Yet, despite client engagement being touted by the company as the lynchpin of its climate strategy, shareholders currently lack any visibility or clarity on how the Company supports its clients in high-emitting sectors to develop ambitious and credible carbon emissions reduction plans. This lack of clarity casts a shadow on the credibility of the Company’s decarbonization targets.

<sup>1</sup> IPCC. [Climate Change 2022: Impacts, Adaptation, and Vulnerability: Summary for Policymakers](#), March 2022, p. 15

<sup>2</sup> <https://www.cdp.net/en/guidance/guidance-for-companies/climate-transition-plans>

**This is not a solicitation of authority to vote your proxy. Please DO NOT send us your proxy card as it will not be accepted.**

**For investors seeking evidence that the bank’s climate plan is both credible and achievable, client engagement simply cannot be held up as a cornerstone of its net zero strategy and yet also remain entirely opaque.**

**The Company’s *Net Zero Pathways* report makes many references to client engagement, but fails to articulate publicly any framework or expectations for its client’s transition plans.**

It is vital that financial institutions work closely with their clients to support and enable the transition in the real economy. Disclosure of transition plans, including the detailed assumptions and data that underpins these, enables effective engagement and capital allocation across the financial ecosystem. However, few companies are reporting credible, decision-useful climate data and transition plans.<sup>3</sup>

Conversely, setting the clear expectation that lending clients develop such a plan will act as a catalyst and accelerant for corporate performance. Reporting to investors on its expectations for client climate transition plans is a reasonable and logical extension of its net zero plan, and harmonizes with its commitments to the Net Zero Banking Alliance, as well as other standard-setting bodies and regulatory agencies.

**In the Company’s words:** “financial institutions are increasingly expected to influence their financed emissions. Hence, emission reduction and net-zero strategies for financial institutions are necessarily tied to the strategies being undertaken in the sectors and countries where they do business.”<sup>4</sup>

“By continuing to support clients in emission intensive sectors, we can work with company leadership to enable and influence emission reducing initiatives — things that we could not do if we exit the banking relationship. Further, this is consistent with the approach espoused by the NZBA to engage with clients and invest in decarbonization efforts in the real economy.”<sup>5</sup>

### **The Importance of Credible Climate Action Plans**

Net-zero commitments are influencing how financial institutions allocate capital with significant implications for the real economy. Given that roughly 91% of fossil fuel financing comes from non-project related lending and underwriting, there is a significant need for banks to ensure that the clients they are lending to are taking the necessary steps to bring their activities in line with stated national and supranational climate change objectives.

Transition plans provide transparency to stakeholders as a reporting mechanism, and by setting expectations, financial institutions can help companies better provide decision-useful information.

---

<sup>3</sup> From GFANZ Real Economy Expectations – Exec Summary

<sup>4</sup> Scotiabank 2022 Net Zero Pathways Report (p8)

<sup>5</sup> Supra

**This is not a solicitation of authority to vote your proxy. Please DO NOT send us your proxy card as it will not be accepted.**

Financial institutions should work with clients and portfolio companies to support and encourage the development of robust transition plans. In turn, companies must think critically about how to revise their strategies to align with net zero and then disclose it through actionable transition plans.<sup>6</sup>

Industry and financial institutions will “play a critical role in getting the world to net zero no later than 2050. They will either help scale the ambition and action we need to ensure a sustainable planet or else they strongly increase the likelihood of failure. The planet cannot afford delays, excuses, or more greenwashing.”<sup>7</sup>

### Failure to Manage Material Risks of Climate Change

So far Scotiabank’s commitment to reducing its financed emissions have not led to a reduction in the amount of financing it provides to fossil fuels.

Since 2016, Scotiabank ranks 2<sup>nd</sup> among Canadian banks in terms of financing companies across the fossil fuel lifecycle. More alarming, the bank ranks 9<sup>th</sup>, globally. Only two other banks saw a larger increase to their fossil fuel financing from 2020 to 2021 (Wells Fargo and Royal Bank of Canada).

2021 also saw the bank become the largest Canadian financier of companies on the Global Coal Exit List, despite having committed to investors and consumers that it would end financing for new [coal projects](#).<sup>8,9</sup>

### Financial Risk from Higher Capital Requirements

As one of the largest funders to fossil fuel companies globally, Scotiabank exposes itself and its investors to significant credit losses if it continues to lend to clients that do not rapidly take the requisite steps to decarbonize their operations.

Recent climate stress tests have found that banks could be significantly exposed to transition risk due to their fossil fuel exposure. A 2021 New York Federal Reserve Bank stress test focused on global banks with an aggregate market share of the oil and gas loan market of over 80%<sup>10</sup>. In a stress scenario modeled after the 2020 energy price collapse, the test documented a substantial rise in banks’ sensitivity to transition-related climate risk and expected capital shortfall; banks with higher loan exposures to the oil and gas industry had a higher sensitivity to transition risk. The

---

<sup>6</sup> GFANZ Expectations for Real Economy Transition Plans

<sup>7</sup> UN High-Level Expert Group on the Net Zero Emissions Commitments of Non-State Entities (2022), p7

<sup>8</sup> [RAN Report](#) (p61): largest financier of coal power among Canadian banks since 2016. Largest Canadian financier of coal mining in 2021.

<sup>9</sup> See [RAN Report](#) p66.

<sup>10</sup> Including the Bank of Nova Scotia

**This is not a solicitation of authority to vote your proxy. Please DO NOT send us your proxy card as it will not be accepted.**

impact of the stress scenario was “sizable for the largest banks,” corresponding to “20- to 30% of banks’ equity.”<sup>11</sup>

## Reputational and Regulatory Risks from Greenwashing

Scotiabank will face reputational and regulatory risks if it continues on its current trajectory. Without a course-correction, the bank will increase financing businesses without credible, Paris-aligned plans. A failure to act will significantly undermine the bank’s public pledges to meet the Paris Accord goals.<sup>12</sup> Scotiabank also declared an intention to work in partnership with its clients, to lower their emissions.

The European Central Bank found in a recent financial stability review that, “While financial markets can play an important role in financing this [energy] transition, greenwashing concerns persist. These need to be tackled through better information, especially in relation to forward-looking commitments and plans, and enhanced standards, both to ensure that green finance effectively supports the transition and to foster efficient market mechanisms.”

Without a framework and expectations for client climate action plans, the current performance of the bank to reduce financed emissions through client engagement is concerning, particularly as it pertains to financing aspects of fossil fuels that are incompatible with a 1.5-degree pathway—coal and new fossil fuel expansion.

## PEER GROUP ANALYSIS

Many of Scotiabank’s global peers have already adopted guidelines for evaluating their clients’ climate action plan credibility:

- [Danske Bank](#) (position statement on fossil fuels)
- [Credit Suisse](#) (p43 CETF)
- [Mizuho Group](#) (see p50)
- [NatWest Group](#) (2021 Climate Related Disclosures)
- [Citigroup](#) (ESG Report p39)

---

<sup>11</sup> [https://www.newyorkfed.org/medialibrary/media/research/staff\\_reports/sr977.pdf](https://www.newyorkfed.org/medialibrary/media/research/staff_reports/sr977.pdf)

<sup>12</sup> Scotiabank Net Zero Pathways Report, 2022

**This is not a solicitation of authority to vote your proxy. Please DO NOT send us your proxy card as it will not be accepted.**

## Conclusion

The Company is a member of the Net Zero Banking Alliance (NZBA), an industry-led, UN-convened alliance that represents over 100 banks and 40% of global banking assets “to drive collective, aligned and credible progress toward achieving net-zero emissions by 2050.”<sup>13</sup>

The NZBA in turn is part of the umbrella entity the “Global Financial Alliance for Net Zero”. GFANZ has published materials and guidance—in particular its “Expectations for Real Economy Transition Plans”—which encourages FI’s to “set clear objectives and articulate desired results from clients.”<sup>14</sup> In fact, the document states that “real-economy transition plans are the most effective way for companies to provide financial institutions with information regarding their net-zero transition strategy and their level of ambition to accelerate the transition.”<sup>15</sup>

It is estimated, however, that just 30% of companies disclosing climate-related data to CDP are developing low-carbon transition plans, and only 1% of these companies reported all key indicators associated with a credible transition plan.<sup>16</sup> It is in this context that the Company would be well-served by meaningful efforts to promote the development of real-economy transition plans, and that investors would be well-served by the report that is being asked for in this proposal.

**Recommendation: Vote FOR Proposal #2, shareholder proposal on Climate Action Plan Expectations at Bank of Nova Scotia’s Annual Meeting 10:00am EST on April 4, 2023.**

### Contact:

Jennifer Story  
Associate Director, Climate Advocacy  
SHARE  
[jstory@share.ca](mailto:jstory@share.ca) // (416) 306-8036

---

<sup>13</sup> <https://www.unepfi.org/net-zero-banking/> Note: the NZBA has already come under scrutiny due to concerns around member institutions’ financing of fossil fuels

<sup>14</sup> <https://assets.bbhub.io/company/sites/63/2022/09/Recommendations-and-Guidance-on-Financial-Institution-Net-zero-Transition-Plans-November-2022.pdf>, p. 61

<sup>15</sup> <https://assets.bbhub.io/company/sites/63/2022/09/Expectations-for-Real-economy-Transition-Plans-September-2022.pdf>, p.ii

<sup>16</sup> <https://www.gfanzero.com/press/gfanz-releases-report-to-provide-blueprint-for-real-economy-transition-plans/>

**This is not a solicitation of authority to vote your proxy. Please DO NOT send us your proxy card as it will not be accepted.**