

# DISCLOSURE OF CLIMATE-RELATED RISKS

[PAYMENTS.CA/SUSTAINABILITY](https://payments.ca/sustainability)



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# FOREWORD

Payments Canada is committed to operating sustainably as we make payments easier, smarter and safer for all Canadians. Sustainability in how we operate has an important role to play to ensure safe and secure payments in Canada for many years to come. With the introduction of modern sustainable business practices, we're aiming to meet the needs of the present without compromising the ability of future generations to meet their own.

This report is the first of our annual climate-risk reports and aims to align with the Task Force on Climate Related Financial Disclosure (TCFD). Payments Canada has chosen TCFD alignment to demonstrate climate leadership and increase and improve reporting on climate-related risk.

Payments Canada began its sustainability journey in 2022 with a focus on developing a roadmap to make our operations more sustainable. We set forward a vision to elevate the social, economic and environmental well-being of our organization and community, achieving this through our sustainability mission to work in a way that incorporates honest and transparent sustainable thinking and actions into our culture and decision-making.

More and more, the world is experiencing the devastating consequences as a result of rising greenhouse gas (GHG) emissions, including increasingly dangerous and irreversible damages. Adaptation solutions can build resilience to climate risks and, in many cases, simultaneously deliver broader sustainable development benefits.<sup>1</sup>

**The information contained in this document is reported as at December 31, 2023, except as otherwise noted.**



# CLIMATE RISKS

Climate change and its associated risks are a global challenge and the large-scale nature of this problem makes it uniquely difficult. While it is widely recognized that the continued emission of greenhouse gasses will cause further warming of the planet, the exact economic, social and physical consequences, as well as timing and severity of these consequences are difficult to estimate.<sup>2</sup>

Payments Canada recognizes the importance of considering climate-related risk. We are dedicated to the delivery, operations and governance of payment systems that are innovative, secure and globally connected without disrupting the needs of future generations. The risks associated with not addressing climate change could have increasing impacts on our organization, the payment ecosystem and the world.

**The need to understand and address these risks is critical to our future.**

## PHYSICAL RISK

The physical effects of climate change are already being realized as we see increasing numbers of extreme weather events.

Physical risks could have a material and direct bearing on Payments Canada and its assets. These impacts could present themselves as: damage to critical corporate and/or payment system infrastructure resulting in operational downtime and increased recovery costs; supply chain disruptions; disruption to services from critical vendors; employee health and safety issues (both physical and mental health); mobility restrictions; and/or potential economic downturns.

### **The velocity of this risk varies between two categories of events:**

**A.** one-off incidents (e.g., tornadoes, floods, etc.) that could result in immediate financial shock, operational disruption, supply chain disruption and, ultimately, the introduction of immediate financial market risk; and

**B.** long-term shifts in climate (i.e., a gradual rise in temperature) that could result in required incremental operational resilience improvements and gradual cost increases.

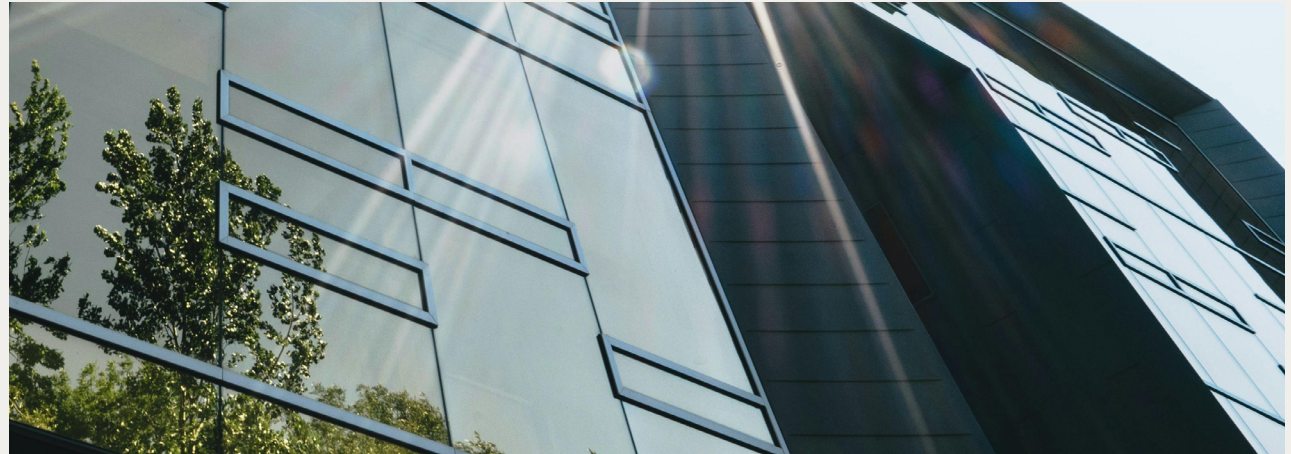
## REPUTATIONAL RISK

When looking at risks resulting from global efforts to transition to a net zero economy, Payments Canada considers reputational risk as a primary focus based on shifts in consumer preferences, increased stakeholder concerns and sector stigmatization.

The reputational risk due to inadequate sustainability practices could result in negative public perception of Payments Canada, stakeholder and vendor criticism of Payments Canada and negative economic, environmental and social impact.

# GOVERNANCE

Payments Canada has a well-established governance framework that captures the key policies, approaches and committees that are used to establish and oversee the Enterprise Risk Management Program, as well as the Sustainability Program. Payments Canada's Board of Directors plays an important role in overseeing climate-related issues; management is involved in assessing and managing those issues. Figure 1 provides an overview of the governance of Payments Canada's efforts related to climate change for both the board and management levels.



## BOARD OVERSIGHT

The Risk Committee is a standing committee of the Payments Canada Board of Directors that oversees the organization's overall risk management framework, including any climate-related risks. The Executive Leadership Team, who is responsible for setting strategic direction and overseeing the performance of the organization, provides quarterly risk reporting to the committee. This includes key updates, performance metrics and mitigating action plans to maintain the operations of critical corporate and payment systems infrastructure, inclusive of any material climate-related risk exposures. The Risk Committee provides guidance and recommendations to management and the board on climate-related risk oversight.

The Governance and Nominating Committee of the board oversees Payments Canada's sustainability program and sets the overall intent and expectation for sustainability activities relating to climate change.

These two committees meet at least once per quarter and receive risk and sustainability reports that allow them to factor climate-related information into key decisions and strategies, as well as see the progress of goals and targets relating to climate risk.

## MANAGEMENT OVERSIGHT

Payments Canada has adopted a three-lines-of-defence model for risk management. The model is designed to provide clear roles and responsibilities for risk management within each line of defence. The figure below provides further detail on roles and responsibilities across the lines of defence and examples of who plays those roles at Payments Canada.

	First line of defence	Second line of defence	Third line of defence
Team	Cross-functional Sustainability Committee, Sustainability Team, Operational Teams	Enterprise Risk Management, Compliance	Internal Audit
Responsibilities	<ul style="list-style-type: none"> <li>➤ Identify and assess climate-related risks associated with Payments Canada's operations, as well as implement controls to manage and mitigate these risks.</li> <li>➤ Monitor and report on climate-related metrics and performance indicators.</li> <li>➤ Planning and maintenance of resilient operations.</li> </ul>	<ul style="list-style-type: none"> <li>➤ Establish enterprise-wide expectations, frameworks and tools for risk management and business continuity.</li> <li>➤ Oversee climate-related risk identification, assessment and mitigation strategies across the organization.</li> <li>➤ Review and oversight of any sustainability governance documents to be aligned with internal policy governance.</li> </ul>	<ul style="list-style-type: none"> <li>➤ Provide independent assurance on governance, risk management and controls.</li> <li>➤ Conduct periodic reviews and assessments of the effectiveness of the first and second lines of defense.</li> </ul>

Through the collaboration of these teams and committees, Payments Canada ensures comprehensive coverage of climate-related risks, from the board level to management. This structured approach facilitates the identification, assessment and mitigation of climate-related risks, ultimately enhancing the organization's resilience and sustainability.

## PAYMENTS CANADA BOARD OF DIRECTORS

STANDING COMMITTEE OF THE PAYMENTS CANADA BOARD OF DIRECTORS

### Risk Committee

Assists the board in fulfilling its responsibilities in relation to risk oversight.

INTERNAL PAYMENTS CANADA COMMITTEE

### Internal Risk Committee

Discusses and debates issues around risk identification, assessment and mitigation, risk management oversight and integrated risk reporting.

Discussions feed into reports to the Risk Committee, regulators (e.g., Bank of Canada) and others as appropriate.

INTERNAL PAYMENTS CANADA COMMITTEE

### Enterprise Risk Management Committee

Assists the Internal Risk Committee in executing its responsibilities.

Engages in enterprise top and emerging risk identification and updates, and key risk management activities in support of the Internal Risk Committee.

STANDING COMMITTEE OF THE PAYMENTS CANADA BOARD OF DIRECTORS

### Governance and Nominating Committee

Oversees Payments Canada's sustainability program.

Sets the overall intent and expectations for sustainability activities.

EXECUTIVE OWNER OF THE SUSTAINABILITY PROGRAM

### Chief Financial Officer

Functional reporting on the CEO and sustainability reporting to the Governance and Nominating Committee.

SUPPORTS SUSTAINABILITY EFFORTS AT PAYMENTS CANADA

### Cross-functional Sustainability Committee

Proposes sustainable topics for consideration, support sustainable risk monitoring and monitor the changing sustainability environment.

Figure 1 Governance of Payments Canada's climate related work

# STRATEGY

Payments Canada's overall sustainability strategy and environmental posture considers our operations, support functions and our physical presence as part of the actual and potential impact of climate-related risk and opportunity. Physical risks as part of our resiliency strategy, along with the risks associated with transitioning to a low-carbon economy, are considered part of our strategy to address climate-related risk and become a net-zero organization by 2050.

## CLIMATE-RELATED RISKS AND OPPORTUNITIES IDENTIFIED OVER THE SHORT, MEDIUM AND LONG TERM

We have considered short-, medium- and long-term time horizons of one year, five years and 15+ years to align with our internal corporate planning, external reporting and our overall sustainability roadmap.

- **In the short term**, Payments Canada has focused on the physical risks of climate change that could impact our operations from a resiliency perspective. Extreme weather events could disrupt Payments Canada's operations by damaging infrastructure and offices, resulting in operational downtime and financial impacts. Payments Canada is regularly reporting sustainability metrics to our Operational Leadership Team, Executive Leadership Team and the Payments Canada Board of Directors to help gain a better understanding of our material climate-related risks, opportunities and exposure.
- **In the medium term**, Payments Canada has focused on the impacts resulting from transitioning to a low-carbon economy. Specifically, Payments Canada has focused on the medium-term reputational risk of inadequate sustainability practices. Over the next five years, we plan to reduce our scope 2 and scope 3<sup>3</sup> greenhouse gas emissions, as well as begin publicly disclosing this information annually. We have made changes to our travel policy to encourage reduced and more sustainable travel and expect to see the results of these changes begin to take effect in the next three to five years.
- **In the longer term**, Payments Canada has made the commitment to become a net-zero organization by 2050, joining Environment and Climate Change Canada's Net-Zero Challenge. Our pledge to the Net-Zero Challenge is our commitment to integrating climate-related risk and opportunity into our long-term business planning and strategy. This commitment is necessary to reduce the climate risk we will certainly face in the future should mitigation measures not be implemented. Our current emissions-reduction target is consistent with achieving net-zero emissions by 2040 through the reduction of our scope 2 and 3 greenhouse gas emissions. We hold ourselves accountable by ensuring we are in Leadership in Energy and Environmental Design (LEED) certified buildings that prioritize sustainability and reducing our business travel emissions through opting for lower-carbon travel methods and an overall reduction in business travel.





## CLIMATE-RELATED IMPACT ON BUSINESS, STRATEGY AND FINANCIAL PLANNING AND RESILIENCY

When considering climate-related risk and the impact it has on our business and strategy, our immediate focus is on resiliency to prevent any impact to our operations. Critical infrastructure failures, supply chain interruptions, disruption to services from critical vendors and employee health and safety are all areas of concern that would impact our business and operations should a climate risk materialize.

When it comes to resiliency relating to the impacts of climate risk, Payments Canada refers to our Business Continuity Management Framework. This framework outlines expectations and guidance for the consistent management of business continuity risk at Payments Canada throughout the business continuity lifecycle. Additionally, the framework defines the necessary steps for Payments Canada to consistently identify risks and impacts and determine the requirements to adequately plan for and resume business following a disruption. It outlines the requirements to mitigate business continuity risks and impacts through the design, implementation, testing and maintenance of viable business continuity strategies and documentation. Defined within the framework, Payments Canada has an enterprise-wide Business Continuity Plan and Crisis Management Plan, as well as disaster recovery plans, including scenario planning and risk and control assessments. This strategy helps support the mitigation of impacts relating to climate risk.

In addition, Payments Canada has developed a financial recovery plan to enable the continued provision of critical services if its financial viability as a going concern is threatened. This plan would help Payments Canada in the case a climate risk materialized, resulting in financial loss or the need to fund a financial shortfall.

# RISK MANAGEMENT

Payments Canada has well established processes for identifying and assessing all risks, including climate-related risks. In support of risk governance, Payments Canada has defined key tools and processes for identifying, measuring, acting on and managing climate-related risk as outlined below.



## IDENTIFY

**Risk appetite:** The amount and type of risk Payments Canada is willing to pursue, retain or accept to achieve its legislative mandate and strategic plan and objectives.

**Risk taxonomy:** Library of the risk types that are applicable to Payments Canada. This includes operational, financial, strategic, settlement and reputation risks.

**Risk assessment process:** Approach to identifying risks associated with a significant decision or there is considerable uncertainty involved.



## MEASURE

**Risk rating methodology:** Framework to ensure consistency in rating risks across the organization.



## ACTION

**Risk treatment:** A range of options or actions for addressing risk, assessing those options and then preparing and implementing a plan of action. Depending on the type and nature of the risk, there are four risk treatment options: Mitigate, Accept, Avoid or Transfer.



## MANAGE

**Risk culture and training:** Ongoing approach to embedding common expectations, knowledge, attitudes and understanding about risk within all employees, vendors and consultants of Payments Canada.

**Monitoring and reporting:** On an ongoing basis, the Enterprise Risk Management team is engaged within the activities completed by the first line to provide oversight and challenge. Risks are reported on throughout the risk management process in varying ways.



## RISK RATING METHODOLOGY

Risks are rated to assess their severity, prioritize resources and determine the level of mitigation required. The risk rating methodology deployed at Payments Canada provides a structure to ensure consistency in risk ratings across the organization.

The process of determining climate risk rating consists of determining the inherent risk using a three point and impact score, determining the mitigation effectiveness and calculating the residual risk. These three elements are interrelated and result in a sound determination of the risk exposure that Payments Canada experiences.

Climate-related risk is seamlessly integrated into Payments Canada's overall risk management framework through continuous research, constant dialogue, risk assessments and monitoring of the risks relating to the sustainability program, as well as managing identified controls.

# METRICS AND TARGETS

Payments Canada has established metrics and targets to assess and manage relevant climate-related risks and opportunities.

## SCOPE 1, 2, AND 3 GREENHOUSE EMISSIONS

Our baseline GHG inventory was established in 2023, capturing 2022 scope 1, 2 and 3 emissions. Scope 1 emissions originate from sources directly owned or controlled by the organization, scope 2 include indirect emissions from energy purchased and consumed in operations owned or controlled by the organization and scope 3 are all other upstream and downstream emissions in an organization's value chain.

Payments Canada does not have any scope 1 emissions. Scope 2 emissions are made up of grid electricity and purchased heating and cooling for our two offices. Scope 3 emissions are primarily made up of corporate business travel.

Emissions scope	2022	2023
Scope 1	0	0
Scope 2	47.5	46.7
Scope 3	257.4	309.2
<b>Total</b>	<b>304.9</b>	<b>355.9</b>

Values are in tonnes of CO<sub>2</sub>E



## METRICS AND TARGETS TO ACHIEVE NET ZERO 2050

Payments Canada announced its commitment to net zero by 2050 in December of 2023. This was a clear signal that we are taking a serious role in contributing to the transition to a net zero economy and a more sustainable future. To help us achieve this goal, we have joined the federal government's Net-Zero Challenge, led by Environment and Climate Change Canada, and are using science-based targets to achieve this initiative. Because Payments Canada has no scope 1 emissions, our focus for decarbonization is scope 2 and 3.

### Scope 2 emissions

Using science-based targets, we look to our offices' corporate environmental targets to ensure alignment with our emissions reduction pathway.

### 2030 observances of office targets

Our Ottawa office projects a reduction to 42 per cent of our baseline by 2030, while our Toronto office projects a reduction to 50 per cent of our baseline by 2030.

### 2040 observances of office targets

The projected 2040 emission reductions exceed science-based targets. The science-based target requires a reduction in absolute emissions to 11 per cent of our baseline. Both the Toronto and Ottawa offices project a reduction to 0 per cent of our baseline.

Our Toronto and Ottawa offices' corporate sustainability targets exceed the science-based decarbonization pathway for net-zero operations by 2040.

### Scope 3 emissions

Our most relevant scope 3 emission category is business travel. We will reduce our travel emissions by adjusting our travel policy to encourage rail travel over air travel and to avoid any unnecessary travel where possible. We are continuing to track our reduction progress between 2024 and 2030 with the goal of a 10 per cent reduction in emissions. This target will be reevaluated annually to ensure it is appropriate. Beginning in 2040, we will buy high quality carbon credits to offset any of our remaining travel emissions.



In addition to travel, we are working to improve our sustainable procurement to ensure we work with vendors who value and align with our sustainability practices. In 2024 we plan to develop a three year sustainable procurement plan in which we will establish vendor environmental, social and governance KPIs, incorporate sustainability into our onboarding process for vendors and build sustainability into our request for proposal process.

**This decarbonization pathway will allow Payments Canada to be net zero by 2040, well before the 2050 target of the Net-Zero Challenge.**



## FUTURE CONSIDERATIONS AND OPPORTUNITIES

Payments Canada will continue to take steps to further our sustainability practices in support of a more sustainable future. Our top priorities over the next few years are to continue to focus on our corporate travel, consider additional measures we could take to cut back our emissions and advance our sustainable procurement, with a focus on how we work with vendors and their sustainability practices.

**We will continue to monitor climate-related risk within our risk appetite and adjust existing priorities as required.**

# APPENDIX 1

## Task force on climate-related financial disclosures (TCFD) index

Recommended disclosures	Reference
<b>Governance:</b> Disclose organization’s governance around climate-related risks and opportunities	Pages 5 – 7
a) Describe the board’s oversight of climate-related risks and opportunities	Page 5
b) Describe management’s role in assessing and managing climate-related risks and opportunities	Page 6
<b>Strategy:</b> Disclose the actual and potential impacts of climate-related risks and opportunities on the organization’s businesses, strategy and financial planning where such information is material	Pages 8 – 9
a) Describe the climate-related risks and opportunities the organization has identified over the short, medium and long term	Page 8
b) Describe the impact of climate related risks and opportunities on the organization’s businesses, strategy and financial planning	Page 9
c) Describe the resilience of the organization’s strategy, taking into consideration different climate-related scenarios, including a 2°C or lower scenario	Page 9

Recommended disclosures	Reference
<b>Risk management:</b> Disclose how the organization identifies, assesses and manages climate-related risks	Pages 10 – 11
a) Describe the organization's processes for identifying and assessing climate-related risks	Page 10
b) Describe the organization's processes for managing climate-related risks	Page 10
c) Describe how processes for identifying, assessing and managing climate-related risks are integrated into the organization's overall risk management	Page 11
<b>Metrics and targets:</b> Disclose the metrics and targets used to assess and manage relevant climate-related risks and opportunities where such information is material	Pages 12 – 13
a) Disclose the metrics used by the organization to assess climate-related risks and opportunities in line with its strategy and risk management process	Page 12
b) Disclose scope 1, scope 2 and, if appropriate, scope 3 greenhouse gas (GHG) emissions, and the related risks	Page 12
c) Describe the targets used by the organization to manage climate-related risks and opportunities and performance against targets	Page 13