

Canada's Taxonomy Roadmap Report

ASFI Webinar May 30

Momentum for a Canadian Taxonomy

Endorsed by Canada's 25 largest financial institutions



Informed by leading knowledge partners



National and international support

“This is not only about **managing the systemic risks** that climate change presents to our economy but also **helping position Canada to seize the climate-smart opportunities** that consumers, workers and investors are looking for. I applaud this important milestone for sustainable finance in Canada, and globally.”

- Tiff Macklem, Governor, Bank of Canada

“With a focus on both green and transition investments, **Canada's framework will help to scale the finance we need to change emissions intensive industries.** It's an example for other nations.”

- Sean Kidney, CEO, Climate Bonds Initiative

Where it began...



June 2019

Chair: Tiff Macklem (Current Governor of the Bank of Canada)

Members: Andy Chisholm, Barb Zvan, Kim Thomassin

Recommendation 3

Establish a standing Canadian **Sustainable Finance Action Council (SFAC)**

Federal government established SFAC in May 2021 to help lead the Canadian financial sector towards integrating sustainable finance into standard industry practice.

Recommendation 9.1

...to develop Canadian **green and transition-orient fixed income taxonomies**

Responsible Ministers:

- Deputy Prime Minister & Minister of Finance
- Minister of Environment and Climate Change

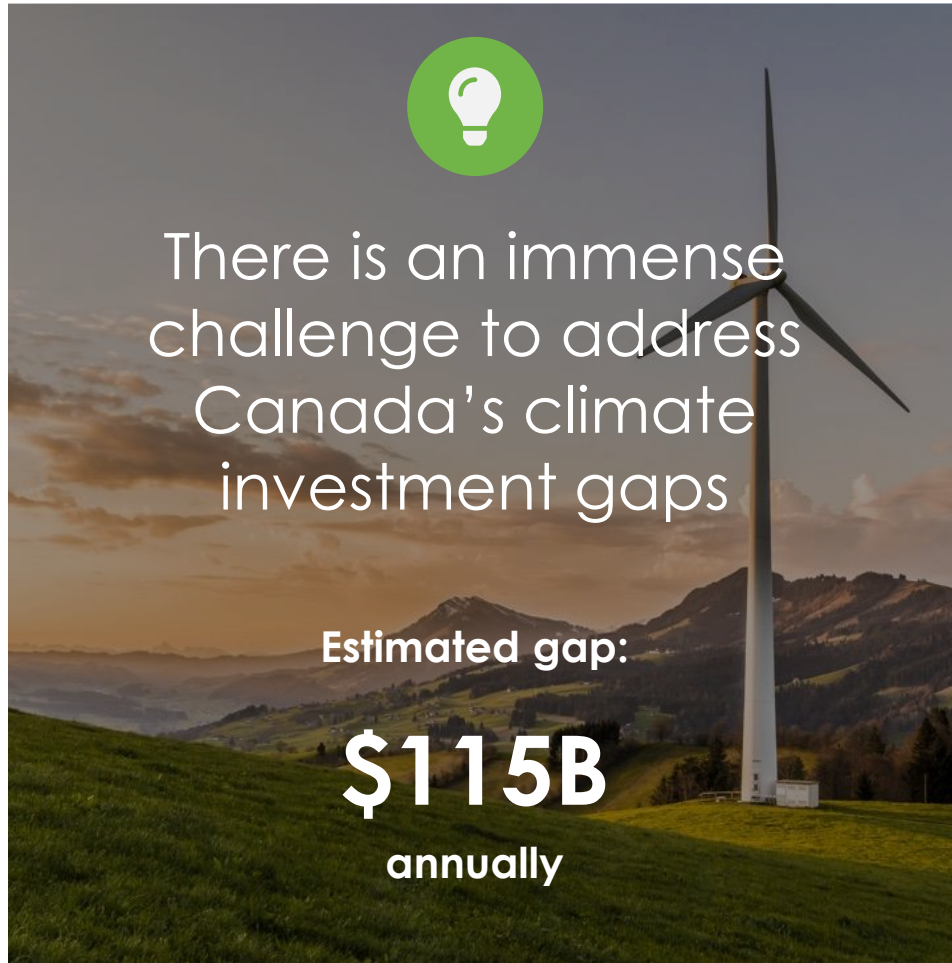


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Lays out an approach:

- ✓ For the development of the taxonomy (i.e. high level criteria)
- ✓ How to structure governance

Promoting the integrity of Canada's net-zero transition



There is an immense challenge to address Canada's climate investment gaps

Estimated gap:

\$115B
annually

- Need the right market infrastructure and policy toolkit
- Climate capital is mobilizing—the risk is misallocation and the pace is too slow
- It's bigger than greenwashing: lack of awareness, sophistication, business-as-usual bias
- Small errors in capital allocation = big impact over time

A taxonomy helps promote capital allocation and business decisions consistent with Canada's climate objectives and transition pathways, keeping global temperature rise to below 1.5 °C, and maintaining international credibility

Influencing the global taxonomy dialogue



Canada needs a taxonomy to influence the global taxonomy dialogue in the area of transition

Absence of a Canadian taxonomy risks certain sectors and activities of importance to Canada being omitted, or having to be takers of criteria ill-suited for the domestic context

- Global importance of taxonomies as a tool to help achieve climate objectives is significant and growing.



Close to 30 countries are at different stages of taxonomy development, including most of the Group of Seven (G7), the Group of Twenty (G20) and many developing economies



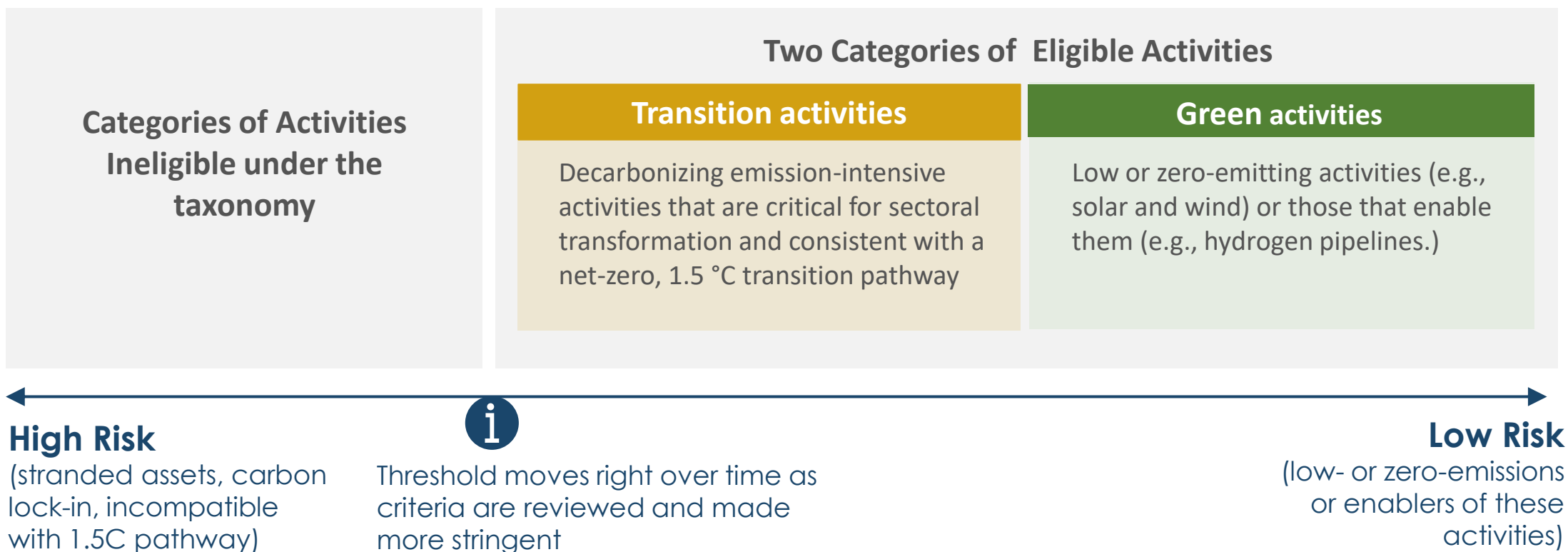
Focus of G20 Sustainable Finance Working Group, Network for Greening the Financial System, International Platform on Sustainable Finance; guidance from OECD and World Bank

- **Global taxonomy development has focused on green activities to date**, but work starting to broaden to transition activities

Taxonomy-compliant issuances must meet three requirements



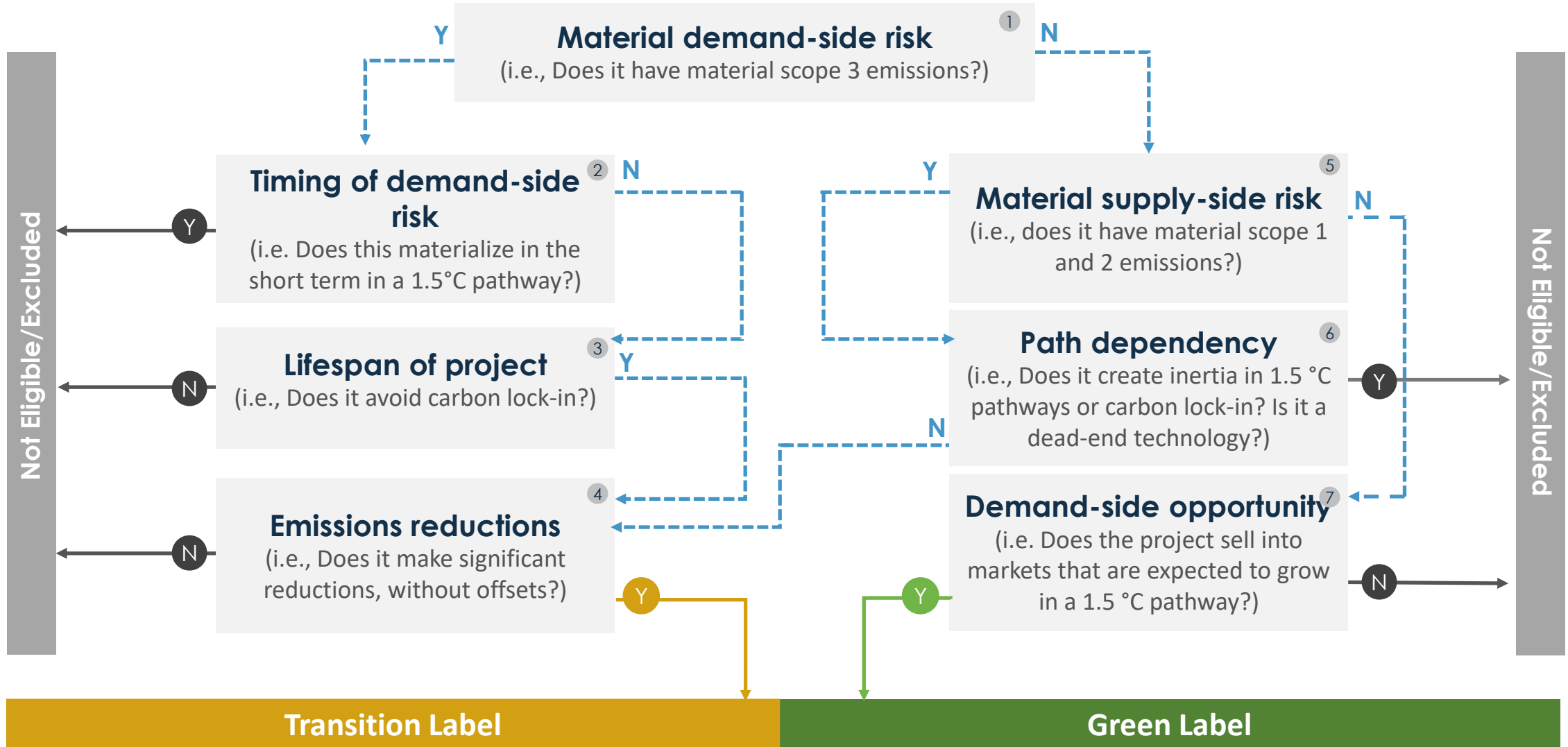
What is (is not) a green and transition finance taxonomy?



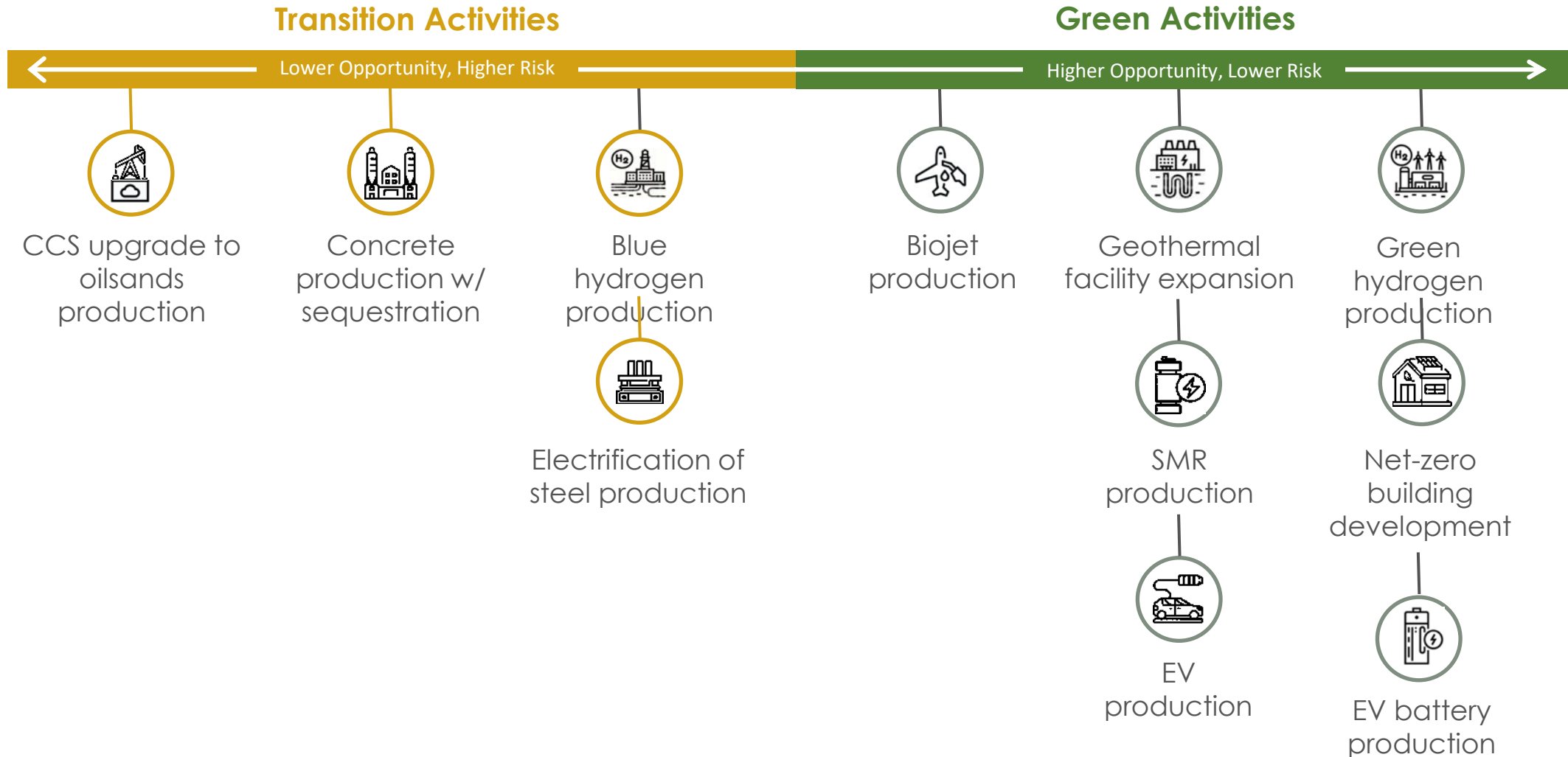
A green and transition finance taxonomy establishes screening criteria about which economic activities (assets, projects or revenue segments) have a higher or lower transition risk.

2. Categorization framework for specific requirements

Examples found in the appendix



Spectrum of opportunity and risk within green and transition categories



3. 'Do no significant harm' requirements

Each project must be assessed against 'do no significant harm' (DNSH) criteria to ensure the project is not detrimental to other environmental, social and governance (ESG) objectives.

- A project categorized as 'green' in the framework that causes significant (non-climate) environmental damage, for example, would be excluded.
- Builds on EU approach (with the addition of Indigenous rights and reconciliation + worker transition criteria).
- Objective is to develop an approach that is clear and accessible for users and that leads to credible DNSH assessments.

Environmental

**Indigenous
Rights**

**Climate
Resilience**

**Workers / Just
Transition**

Governance – A Critical Elements for success

Joint federal government-financial sector leadership,




with strong Indigenous and provincial participation, to maximize credibility and usability

Governance that is transparent

and results-oriented and that safeguards scientific integrity

Well-resourced, with stable and predictable funding for the long term

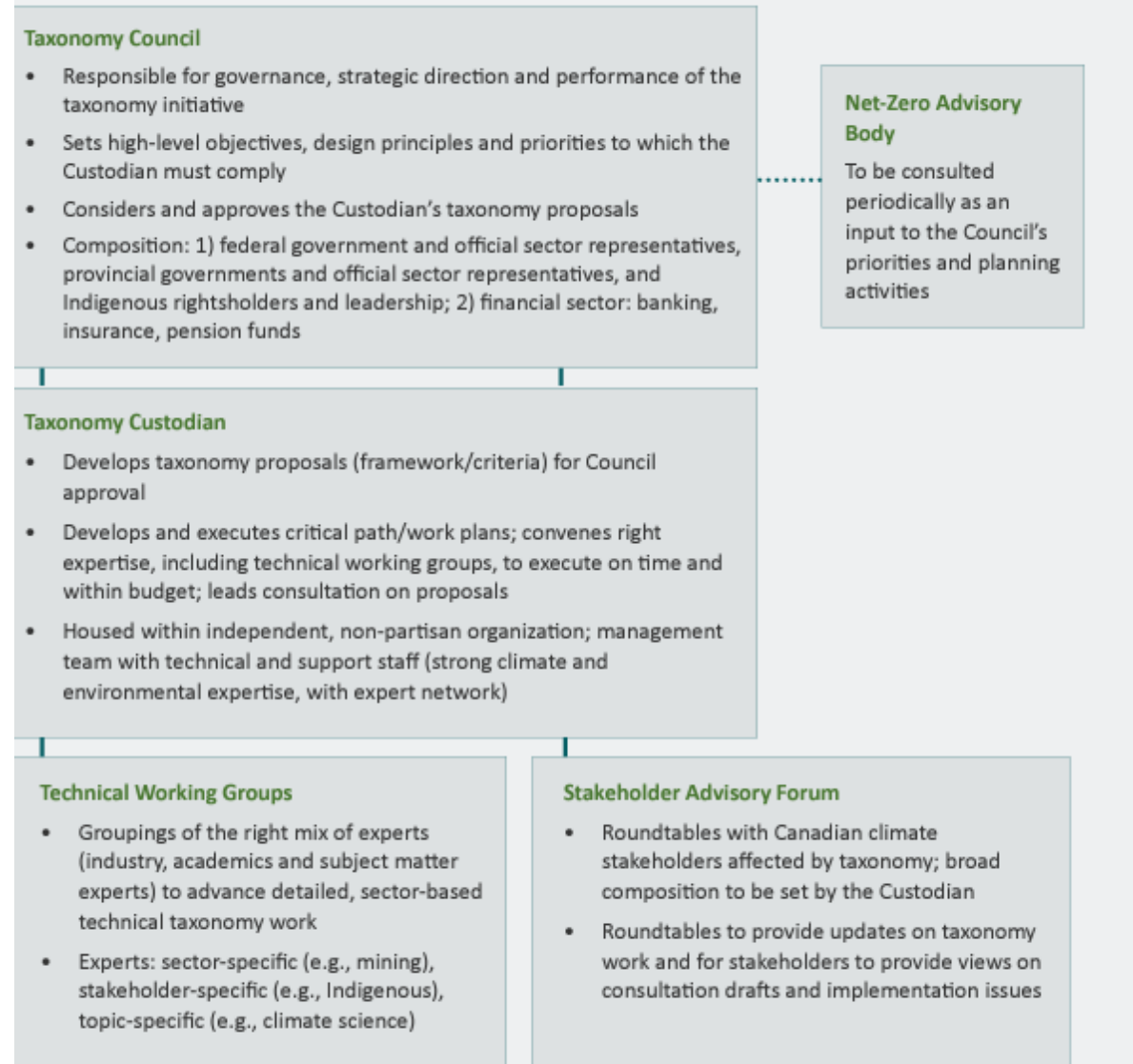
All national taxonomies have government participation

-  Taxonomy development involves many stakeholders and much consultation
-  All taxonomies have significant involvement from the financial sector – key to deployment (practical & usable)
-  Industries are involved in sector-specific working groups

Recommended robust governance model

Recommendation based on learnings from an Institute for Sustainable Finance landscape review of taxonomy governance structures => <https://smith.guensu.ca/centres/isf/resources/taxonomies-resources.php>

Diagram 2: Overview of the Proposed Taxonomy Governance Model



Phase 1 work effort is organized by advancing the following key areas:



Advancing technical specifications to enable the application of the high-level criteria

Next paper “Operationalizing Oil and Gas Activities in the SFAC Green & Transition Taxonomy”



Prioritization framework



Detailed governance model and funding proposal

Outreached or in progress to groups targeted within Stakeholder Advisory Forums



Laying the groundwork for connecting to bank and insurance capital requirements



Lead by the regulator, OSFI



Promoting a common global definition of transition

Speaking with ASEAN, ASFI (Australia)



Presenting to Net Zero Asset Owner Alliance (NZAOA)



Building education and awareness with key stakeholders in Canada

