Canada's Taxonomy Roadmap Report

ASFI Webinar May 30

Taxonomy Technical Expert Group • Sustainable Finance Action Council

CANADA'S TAXONOMY ROADMAP

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...



Mobilizing Finance for Sustainable Growth



Government Gouvernement of Canada du Canada

Canada

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 transitionorient fixed income *taxonomies*

Responsible Ministers:

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

Taxonomy Roadmap Report

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Mobilizing Finance for Sustainable Growth by Defining Green and Transition Investments Sustainable Finance Action Council ntember 2022 Institute for Sustainable Our core knowledge partners:

Released March 2. 2023

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



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 illsuited for the domestic context

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

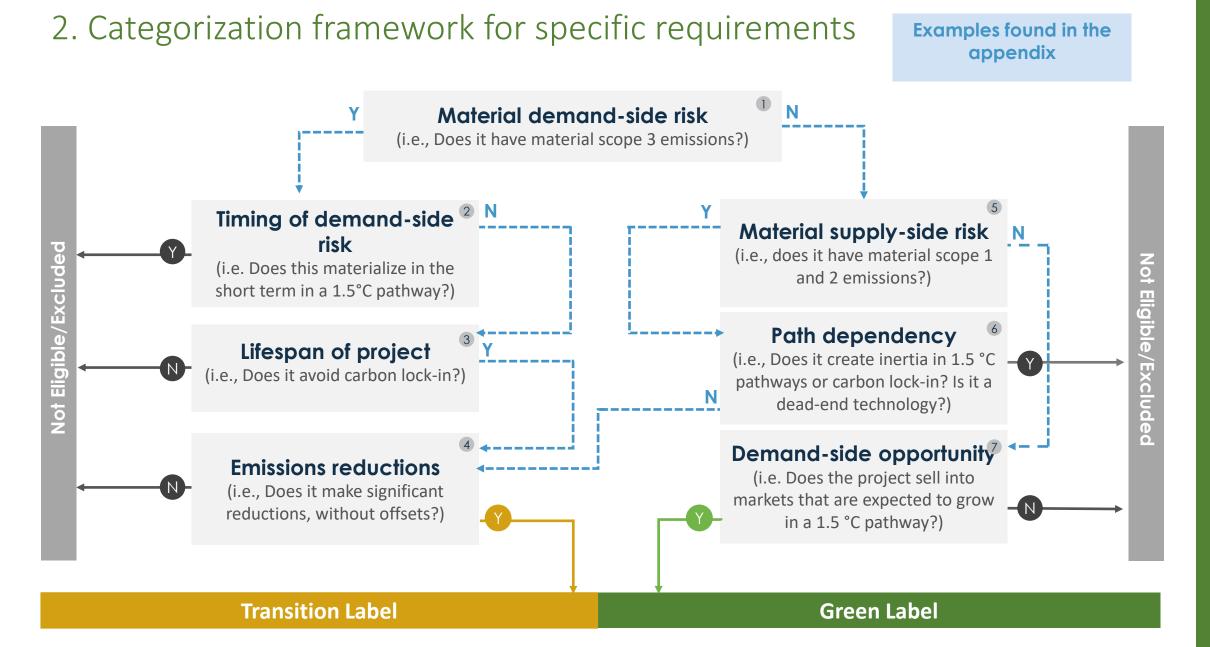
Taxonomy-compliant issuances must meet three requirements



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

| | | Two Categories of Eligible Activities | |
|--------------------------------------------------------------|------------------|--------------------------------------------------------------------------------------------------------------------------------------------------------------|--------------------------------------------------------------------------------------------------------------------|
| Categories of Activities Ineligible under the taxonomy | | Transition activities | Green activities |
| | | Decarbonizing emission-intensive activities that are critical for sectoral transformation and consistent with a net-zero, 1.5 °C transition pathway | Low or zero-emitting activities (e.g., solar and wind) or those that enable them (e.g., hydrogen pipelines.) |
| High Risk (stranded assets, carbon | i Threshold r | noves right over time as | Low Risl (low- or zero-emission |
| | | reviewed and made Jent | or enablers of thes activities |

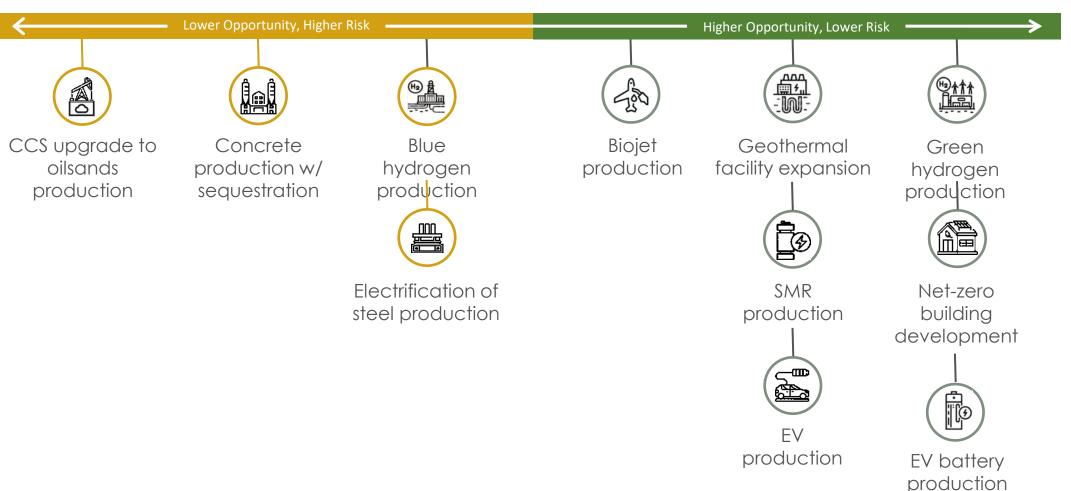
A green and transition finance taxonomy establishes screening criteria about which economic activities (assets, projects or revenue segments) have a higher or lower transition risk.



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Spectrum of opportunity and risk within green and transition categories

Transition Activities

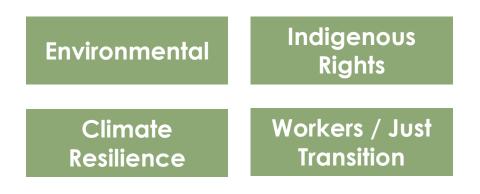


Green Activities

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.





Governance – A Critical Elements for success

Joint federal governmentfinancial 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

Jiagram 2: Overview of the Proposed Taxonomy Governance Model

Recommendation

- based on
- learnings from an
- Institute for
- Sustainable
- Finance landscape
- review of
- taxonomy
- governance
- structures =>
- https://smith.gue
- ensu.ca/centres/is
- f/resources/taxon
- omies-
- resources.php

Taxonomy Council

- Responsible for governance, strategic direction and performance of the taxonomy initiative
- Sets high-level objectives, design principles and priorities to which the Custodian must comply
- · Considers and approves the Custodian's taxonomy proposals
- Composition: 1) federal government and official sector representatives, provincial governments and official sector representatives, and Indigenous rightsholders and leadership; 2) financial sector: banking, insurance, pension funds

Taxonomy Custodian

- Develops taxonomy proposals (framework/criteria) for Council approval
- Develops and executes critical path/work plans; convenes right expertise, including technical working groups, to execute on time and within budget; leads consultation on proposals
- Housed within independent, non-partisan organization; management team with technical and support staff (strong climate and environmental expertise, with expert network)

Technical Working Groups

- Groupings of the right mix of experts (industry, academics and subject matter experts) to advance detailed, sector-based technical taxonomy work
- Experts: sector-specific (e.g., mining), stakeholder-specific (e.g., Indigenous), topic-specific (e.g., climate science)

Stakeholder Advisory Forum

 Roundtables with Canadian climate stakeholders affected by taxonomy; broad composition to be set by the Custodian

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 Roundtables to provide updates on taxonomy work and for stakeholders to provide views on consultation drafts and implementation issues

Net-Zero Advisory Body

To be consulted periodically as an input to the Council's priorities and planning activities

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

