

FEDERAL GOVERNMENT PUBLISHES FINANCE SUSTAINABLE GROWTH TAXONOMY FOR CLIMATE EMERGENCY

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Articles

On March 3, 2023, the Canadian federal government's Sustainable Financial Action Council published its Taxonomy Roadmap Report for Mobilizing Finance for Sustainable Growth by Defining Green and Transition Investments. This report is likely to feed into other federal measures that are aimed at a net-zero economy. Lenders and other participants in the Canadian financial market will benefit from counsel who are educated on these developments in order to remain competitive.

This 77-page report seeks to develop a taxonomy that will produce standards in order to benchmark economic activities consistent with climate goals expressed by the federal government. Accordingly, it is reasonable to expect that this report will feed into future budgetary and policy measures. The taxonomy provided in this report has specified aims of mobilizing capital in alignment with transition pathways and climate objectives, developing a sustainable finance market and mitigating greenwashing, providing a multiple-use standardized tool, and contributing to the global taxonomic dialogue on these fronts. Generally, the taxonomy's objective "is to foster the issuance of green and transition[al]

financial instruments" consistent with the federal climate goals. Accordingly, the taxonomy sets out categories of general requirements, specific requirements, eligible green projects for issuing green financial instruments, eligible transition projects for issuing transition financial instruments, ineligible projects and "do no significant harm" requirements. Participants in the financial markets should familiarize themselves with these in anticipation of further policy measures that could be reflective of these categories.

Recommending an "imperative" to proceed with a green and transition finance taxonomy the report notes a required increase in climate investment of \$125 billion to \$140 billion annually from current levels of \$15 billion to \$25 billion. These levels are noted from the federal Canadian 2022 budget. Thus the report and the current policy on climate investment requirements, and potentially incentives to participate in such investments, are aligned. Indeed the report specifies that a taxonomy is a tool meant to help mobilize the allocation of capital in accordance with the environmental transitional pathways and climate mitigation objectives. Considerations of Indigenous matters are referenced but receive surprisingly little consideration in the report given the current federal government's expressed commitment to truth and reconciliation.

The final section of the report is dedicated to implementation recommendations separated into two phases. The first phase, to be completed by summer 2023, is to publish a short form taxonomy covering priority sectors and activities and to lay the groundwork for long-term taxonomy implementation. The second phase, occurring after summer 2023, recommends the establishment of a Taxonomy Council, a Taxonomy Custodian selected by the Taxonomy Council, a taxonomy draft by early 2025 on a consultation basis and an approved taxonomy by the end of 2025. A series of annexes to the report identifies the current status of sustainable finance in the Canadian market including naming issuers of sustainable finance products as at the end of 2021. The data in these annexes would appear to be aimed at highlighting the lack of activity in the Canadian sustainable finance market.

Financial institutions, issuers and participants in the Canadian financial markets should anticipate further steps at a policy and budgetary level aimed at enhancing green and environmental transition financing and should ensure that their counsel are extremely familiar with and able to proactively advise on such matters. If you would like to discuss how this taxonomy will/could affect your business, please contact Chris Alam or any member of our [Environmental, Social and Governance \(ESG\) Group](#).

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