

Canada Targets Net-Zero with a Green Taxonomy and Mandatory Climate Disclosures

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What you need to know

The federal government will deliver on its made-in-Canada sustainable investment guidelines (the Green Taxonomy); and introduce legislation to require mandatory climate-related financial disclosures for large, federally-incorporated private companies (the Disclosure Mandate) [as announced on Oct. 9, 2024](#) by the Honourable Chrystia Freeland, Deputy Prime Minister and Minister of Finance.

The Green Taxonomy will be guided by principles established by the federal government and developed by third-party experts. The Disclosure Mandate will be introduced via amendments to the Canadian Business Corporations Act and will compliment the work of the Canadian Securities Administrators (CSA) with respect to mandatory climate-related risk disclosure for publicly traded companies.

Our take:

The federal government is advancing guidelines and changes in law that will bring Canada in line with Europe and potentially the U.S. with respect to mandatory and voluntary climate-change related reporting. **The Green Taxonomy and Disclosure Mandate compliment the government's current industrial policy, which has seen a suite of \$93 billion in tax credits for eligible clean investments introduced since 2023.** The current changes further compliment the important work of the CSA and its signal to the market that it intends to adopt the Canadian Sustainability Standards Board (CSSB) sustainability and climate-related disclosure standards (for more information on the CSSB, see [our article here](#)).

If done correctly, the Green Taxonomy and the Disclosure Mandate will provide investors with comprehensive and comparable disclosure standards to help inform their investment decisions. Importantly, the guidance provided by the Green Taxonomy and Disclosure Mandate will be an essential tool for businesses subject to mandatory reporting, and aid companies in their compliance with recent changes to the Competition Act [prohibiting greenwashing](#). Overall, the continued convergence and harmonization of climate-related reporting standards will help Canada obtain increased investment in clean technology.

Made-in-Canada Sustainable Investment Guidelines

A taxonomy is a fancy word for a system of classification and was originally used to describe the classification of living organisms. The word has since been hijacked by accountants and scientists alike to classify much more benign subject matter. Aptly named, the objective of the Green Taxonomy is to create a system to classify and identify “green” and “transition” economic activities.

The federal government has released a [backgrounder outlining its expectations](#) for the development and subsequent launch of the Green Taxonomy. Per the backgrounder, the Green Taxonomy will “identify job-creating activities in a way that is scientifically credible and aligned with limiting global temperature rise to 1.5°C above pre-industrial levels.” Governance and development of the Green Taxonomy will be delegated to a third-party organization(s), external to the federal government.

Specific use cases of the Green Taxonomy will include setting standards for classifying climate-related financial instruments (e.g., bonds or loans), and/or evaluating the green or transition credentials of financial instruments and issuers. The aim of the Green Taxonomy is to mobilize investment in support of Canada's net-zero transition by enabling investors to understand and communicate which key activities and investments will deliver a Canadian net-zero economy.

Defining Green and Transition Investments

The Green Taxonomy will separate economic activities into “green” or “transition” activities per recommendations made by Canada's Sustainable Finance Action Council (SFAC). Generally, these economic activities would be defined as:

- **Green**: low-or zero-emitting activities, such as green hydrogen, solar, and wind energy generation, or those that enable them, such as electricity transmission lines and hydrogen pipelines; and,
- **Transition** : decarbonizing emission-intensive activities that are critical for sectoral transformation and consistent with a net-zero, 1.5°C transition pathway, such as installing lower-emitting (electric) furnaces to produce steel.

The current expectation is that activities would be classified according to a (yet to be finalized) categorization framework.

Priority sectors

The first phase of the Green Taxonomy's development will be to focus on developing eligibility criteria for priority sectors. According to the backgrounder, “a taxonomy for two to three priority sectors will be released within 12 months of the arm's-length, third-party organization(s) beginning its work. The final determination of eligible activities would rest with the third-party organization(s) which will develop, implement, and maintain the Canadian taxonomy...” The currently identified priority sectors include:

- Electricity;
- Transportation;
- Buildings;

- Agriculture and Forestry; and
- Heavy Industry, including both manufacturing and extractives.

Company-Level Expectations

In keeping with the below-discussed Disclosure Mandate, the Green Taxonomy will include company-level requirements that must be followed for companies to be eligible for green and transition labelling in the taxonomy (as per SFAC's recommendations).

These proposed company-level actions (and potential future eligibility requirements) include:

1. The enactment of net-zero targets;
2. Having a credible transition plan to transition the company toward a lower-carbon economy; and
3. Having a robust climate disclosure policy by which the company would provide relevant information.

Given that the Green Taxonomy will be developed by third-party organization(s), it will be up to such advisors to determine the finality and implementation of the above-noted expectations (guiding principles, defining eligible activities, priority sectors, and company-level expectations).

Mandatory Climate-Related Financial Disclosures

The federal government confirmed it will proceed with the Disclosure Mandate by way of proposed amendments to the Canada Business Corporations Act. A regulatory process will soon be launched to determine the substance of the disclosure requirements and the size of private federal corporations that would be required to report. However, the federal government was explicit that small to medium sized federally-incorporated businesses will not be subject to the Disclosure Mandate, which presumably will be all **federally-incorporated businesses that do not qualify as “large”**. However, the federal government will still be considering strategies to encourage small and medium-sized businesses to voluntarily release climate-related disclosures.

Although the details of the Disclosure Mandate remain to be fleshed out, we do know that the federal government will be aiming to work with the provinces and territories to ensure adequate disclosures are enabled. The federal government will also aim to align its forthcoming regulations with those already and to be enacted by securities regulators and [OSFI](#).

See BLG's [Climate Change](#) Group page for further reading on climate change matters.

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