



TOWARD A GLOBAL TAXONOMY: STATE OF THE ART AND KEY EXPERIENCES ACROSS THE WORLD

WEBINAR PROMOTED BY ESGENERATION ITALY DURING THE SRI WEEKS

BRIEFING NOTE

FINANCE MONTRÉAL: QUEBEC FINANCIAL CLUSTER

Created in 2010 by institutions of the financial services industry at the invitation of the Quebec government.

50 members among the main Canadian financial institutions (banking, insurance, asset managers, asset owners), legal and consulting firms, professional associations, universities...

Mission: to develop and promote Quebec's financial services industry, through consultation and mobilization, to make Quebec a competitive, attractive and innovative financial centre.

Main activities:

- Innovation and financial technologies
- International financial center
- Talent development
- Sustainable finance

SUSTAINABLE FINANCE INITIATIVE

What: to foster the emergence of sustainable finance in Quebec.

How: by bringing leading financial institutions together to integrate environmental, social and governance (ESG) issues, while seeking positive benefits for the economy and communities.

Why: to position Montreal and the province of Quebec as the center of excellence and innovation in sustainable finance in North America”.

Main initiatives:

- Promotion and awareness
- Capacity building and education
- Ecosystem development
- Pan-Canadian and International Cooperation



CANADA: A LITTLE BIT OF CONTEXT

In May 2021, the federal government created the Sustainable Finance Action Council to help the Canadian financial sector towards the integration of sustainable finance into industry practices.

The primary mandate of the Sustainable Finance Action Council is to make recommendations on the critical market infrastructures needed to attract and develop sustainable finance in Canada.

- Climate-related disclosure
- Climate Data and Analysis
- Green and Transition Taxonomy

On this last point, the objective is to provide guidance and recommendations to the Ministers of Finance and Environment and Climate Change Canada on the definition of green and transition investments.

The Sustainable Finance Action Council then convened a Taxonomy Technical Expert Group to provide the leadership and expertise needed to address this element of the mandate.

The Taxonomy Technical Expert Group produced a report which contains a series of recommendations on the merits, design, and phased implementation of a green and transition taxonomy for Canada.

INTRODUCTION TO THE CANADIAN TAXONOMY

In general, taxonomies simplify a complex set of entries to create a "memory aid" for comparing climate performance that can be used to evaluate existing or proposed activities, investments, projects, etc.

Whereas a Green and Transition Taxonomy establishes criteria for selecting which economic activities (assets, projects, or economic activities (assets, projects, or income streams) are of higher or lower transition risk.

Transition activities include:

- Decarbonizing emission-intensive activities that are essential to sectoral transformation and consistent with a 1.5 C net-zero transition trajectory (e.g., installation of low-emission (electric) furnaces to produce steel)

Green activities include:

- Low or zero emission activities (e.g., solar and wind) or those that enable them (e.g., hydrogen pipelines)

Expected applications:

- The taxonomy can be useful to a broad range of stakeholders (investors, companies, regulators), in areas where benchmarking would be useful (carbon neutrality transition planning, risk management, climate disclosure).



- Critical tool to accurately tracking success by having a common definition of transition investments
- Intended to be part of a broader toolkit to support rapidly expanding green activities, decarbonize higher-emitting sectors, and move away from high-risk transition activities

With the inclusion of “Transition” which is not commonly found in the 20 current taxonomies published in different regions of the world, the goal is to create more opportunities to finance and support activities that reduce emissions and improve resilience in the real economy.

OPPORTUNITIES FOR CANADA

First and foremost, there is a huge challenge to close the climate investment gap in Canada.

Gap estimated at \$115 billion annually.

- A taxonomy would provide a tool to promote capital allocation and business decisions that are consistent with Canada's climate goals and transition paths.

Second, the green bond market in Canada and globally has grown significantly in recent years, supported by green taxonomies that have created investor confidence in the green label.

- A science-based taxonomy for transition would help build investor confidence in the transition label and reduce the risk of greenwashing associated with sustainability products
- It is essential for Canada to develop a transition finance market that can provide a reliable source of capital over time to Canadian companies with credible transition plans

Third, the absence of a Canadian taxonomy may result in the omission of some sectors and activities of importance to Canada or the adoption of criteria that are inappropriate to the national context.

- So far, the development of the global taxonomy has focused on green activities, but the work is starting to extend to transition activities
- Transition is more challenging and is of strategic interest to Canada given the importance of the primary resource and industrial sectors to the Canadian economy

However, developing a Green and Transition Taxonomy requires a permanent governance structure, stable funding, significant expertise, and ongoing review, but there is already a vast pool of knowledge and expertise in Canada that could be mobilized to accelerate the development and implementation of the taxonomy.

Expected benefits:

The taxonomy should seek to support the achievement of other objectives critical to Canada's transition.

- Economic: improve the resilience and competitiveness of the Canadian economy in the global transition to a low-carbon economy



- Financial: reduce transition risks in the financial system and leverage private sector capital to align with the global transition
- Social: facilitate the transition for workers and their families, communities, and Indigenous Peoples

IMPLEMENTATION AND NEXT STEPS

Fall 2022 to Summer 2023

- Publish an abstract taxonomy covering priority areas and activities
- Lay the foundation for long-term implementation of the taxonomy (governance, funding, strategic planning)

Starting in the summer of 2023

- Full implementation led by the federal government and the Sustainable Finance Action Council (draft, consultations...)
- Should be published by the end of 2025

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