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Environmental Finance

Canadian report sets out three-year-pathway for mandatory climate disclosure

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Sustainable investments of private investors can only flow if governments provide certainty about investment conditions and make climate disclosure mandatory, a report said.

The report titled *Leveraging Sustainable Finance Leadership* in Canada was published by the International Institute for Sustainable Development (IISD), an independent think tank.

It sets out a three-year roadmap for greening Canada's financial ecosystem, and proposes to establish mandatory climate-related disclosure in Canada by 2021.

The report argues that mandatory reporting on climate-related risk and opportunity is needed to provide certainty for companies and investors.

It cites a 2018 status report of the Task Force on Climate-related Financial Disclosures, which assessed disclosures of 1,800 companies, and it suggested that voluntary standards have not resulted in material information related to climate risk being disclosed in financial filings.

It also finds that Canada's financial institution companies and their capacity to mainstream climate-related disclosure is low. As a result, it alerts that climate risks, such as physical and transition risks, will accumulate in capital markets.

Mandatory reporting could ensure certainty and "will enable the private sector to invest in the people and processes needed to model the impact of innovation on emissions and, in time, to assess and report on business activities in light of climate scenarios".

Investors could make investment decisions using climate-related disclosures.

"Doing so will contribute to economic productivity by widespread reporting of readiness to adapt to climate-related risk and of carbon and energy productivity, which in turn will trigger private capital flows from investors seeking the highest risk-adjusted returns," it writes.

However, without this certainty, capital market action on climate-related disclosure will be delayed.

The report demonstrates the feasibility of Canada updating its law and standards.

It proposes legislative, non-legislative and standard-setting updates at the international, federal and provincial levels.

The think tank calls on Canada to closely follow international efforts to create sustainable finance taxonomies and frameworks, such as that of the EU.

"Disclosure on energy transition plans is what global investors are looking for," said Céline Bak, author of the report. "Otherwise investors will assume that targets are just that, and that capital is not being allocated to meet those targets. This is a risk to Canada's financial sector – particularly given how much capital is invested in Canada's energy sector."

The report's recommendations come ahead of an announcement by Canada's Expert Panel on Sustainable Finance on how finance and investment structures can help mitigate climate change and support the low-carbon transition.

Key calls to action in the three-year roadmap for greening Canada's financial ecosystem include the following suggestions:

The federal government amends the Canadian Business Corporations Act – part 14 Financial Disclosure to require companies to include certain climate change-related disclosures and environmental reporting in their annual reports

Environment and Climate Change Canada proposes legislation for regular reporting on the assessment/mitigation of climate-related physical risk by all federal public entities

Natural Resources Canada proposes legislation for regular reporting on the assessment/mitigation of climate-related risk by companies in the natural resources sector

The Toronto Stock Exchange (TSX) joins the UN Sustainable Stock Exchanges Initiative

The Bank of Canada clarifies the degree to which mainstreaming disclosure of climate-related risks and opportunities is relevant to the 2019 Financial System Review

The Chief Actuary of the Office of the Superintendent of Financial Institutions reports on the risk of climate adaptation to the fully funded status of the Canada Pension Plan Investment Board

The Canadian Securities Administrators reviews members' supervisory practices for climate-related financial disclosures

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