FINAL

BUSINESS FUTURE PATHWAYS

Canadian Sustainable Finance Taxonomy: **Methodology Report**

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Kananaskis, Alberta
(Kerry Snelson/Adobe Stock)

Acknowledgments

The independent Canadian Taxonomy and Transition Planning Council (the "Council"), working in collaboration with the Canadian Climate Institute and Business Future Pathways, has been mandated by the Federal government to develop taxonomy guidelines for six sectors by the end of 2027. The Council is supported by approximately 70 advisors (members of the council's Financial, Technical, and International advisory groups) with diverse expertise across finance, climate science and policy, civil society, and international best practices. Secretariat support is provided by the Canada Climate Law Initiative.

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Electric vehicle assembly
(Nikomsolftwaer/Adobe Stock)

Executive summary

Sustainable finance taxonomies categorize economic activities based on whether they credibly align with sustainability objectives. Taxonomies are science-based and create standardized definitions across the market to help companies, investors, and lenders make more efficient and informed investment decisions. The Canadian taxonomy is a voluntary tool to identify what projects and economic opportunities are credibly aligned with the country's path to achieving net zero emissions by mid century.

Within this context, Canada's sustainable finance taxonomy is designed to serve several important purposes. Through improving market clarity and confidence, the taxonomy will help accelerate capital flows to activities that are aligned with climate science and Canada's decarbonization priorities through multiple avenues—whether it is through underpinning the issuance of labelled financial instruments (e.g., green and transition bonds), supporting investment analysis, or providing a standardized framework for financial institutions to track their financing and corporations to track their capital and operating expenditures. Across all of its use cases, a made-in-Canada taxonomy will strengthen credibility and interoperability (i.e., harmonization) of investments with global peers while also reflecting the reality of Canada's economy, geography, and subsequent emissions reduction imperatives.

This *Methodology Report* provides the foundation of Canada's sustainable finance taxonomy, informing its future development and implementation. It has been approved by Business Future Pathways' Taxonomy and Transition Planning Council and informed by input from the Financial Services, Technical, and International advisory groups throughout the development process. It also reflects feedback received during a five-week public comment period from individuals and organizations as well as participants in dedicated Indigenous perspectives sessions. This input is summarized in the *What We Heard* report (BFP 2026).

Taxonomy foundations

Objectives

The first phase of taxonomy development focuses on climate mitigation. Prioritizing climate mitigation (e.g., reducing greenhouse gas emissions) reflects the urgency of decarbonizing the economy and aligns with other jurisdictions, which have also focused on climate mitigation first. It is recommended that subsequent phases of the taxonomy focus on adaptation and biodiversity, in line with the vast majority of public feedback received.

Principles

The taxonomy will be based on the principles of credibility, usability, interoperability, good governance, adaptability, and regional specificity. The first three principles—credibility, usability, and interoperability—establish the taxonomy's direction and guide its design. The second three principles—good governance, adaptability, and regional specificity—guide the taxonomy's implementation and operationalization.

Ambition

The taxonomy will be anchored in the ambition of the Paris Agreement, which will be operationalized using net zero decarbonization pathways. To ensure credibility and interoperability, the Canadian taxonomy will be anchored in the ambition of the Paris Agreement, with technical screening criteria developed based on sectoral net-zero-by-2050 decarbonization pathways.

Scope

The taxonomy will provide guidance for evaluating investments at the activity level. The taxonomy will encourage users to implement entity-level net zero targets, climate-related disclosures, and transition plans once guidance is available but, to support usability, these will not be required. Rather, activities will be evaluated based on their merits and criteria will be applied at the activity level.

Safeguards

The taxonomy will require disclosure of alignment to Do No Significant Harm (DNSH) and Minimum Social Safeguards (MSS) criteria. Drawing on international precedents and the specific features of Canada's legal and institutional landscape, the taxonomy will adopt a disclosure-based DNSH framework that includes both generic and sector-specific criteria, and an MSS framework that includes both an entity-level and activity-level assessment. These frameworks will be published for public comment in late 2026. This will include seeking continued engagement with Indigenous-led organizations and experts to inform the DNSH/MSS criteria and ensure that Indigenous rights are respected within the framework.

Defining the taxonomy's categories

The taxonomy's categorization framework establishes two categories of eligible economic activities: green and transition, while leaving open the possibility of a third category, abatement measures. The activity classification framework sorts activities into **green** or **transition,** based on exposure to transition-related risk and opportunity in Paris-aligned pathways.

- The **green** category applies to climate solutions that have zero to near-zero GHG emissions, and to activities that directly enable the production of these climate solutions. This category will include, for example, renewable energy and storage technologies.
- The **transition** category applies to GHG emissions-intensive activities that can achieve deep emissions reductions and that have stable or growing demand in Paris-aligned pathways. This category would include, for example, major decarbonization investments in steel, cement, and chemicals manufacturing. The **transition** category includes two eligible pathways:
  - **whole-of-activity:** entire activities if they meet technical screening criteria; and
  - **transition measures:** where the whole-of-activity criteria is not met, technologies, practices, processes, materials, and/or services applied to an activity that improve its performance in line with relevant technical screening criteria (i.e., materially reduces emissions).

A third **abatement measures** category is subject to further research. If ultimately approved by Council for taxonomy inclusion, this category would apply to select activities that achieve substantial, near-term emissions reductions in emissions-intensive sectors and activities that are highly likely to experience demand decline in Paris-aligned pathways (e.g., methane abatement in upstream oil and gas production). The **abatement measures** category's inclusion in the taxonomy framework will depend on further research into whether it can feasibly align with the taxonomy's ambition, objectives, and principles. Specifically, that means determining whether sufficiently strong guardrails and credible technical screening criteria can be developed to ensure that eligible activities avoid carbon lock-in and support the principles of the Canadian taxonomy. The work to make this determination will begin in 2027.

Importantly, the activity classification framework is not standalone guidance. Rather, it sets the parameters for the forthcoming sector-specific technical screening criteria developed by the Canadian Climate Institute and Business Future Pathways. These technical screening criteria will provide guidance on terms and concepts included in this report, such as: establishing specific thresholds for near-zero activities in each sector's **green** category and defining what constitutes *material emissions reductions, technically feasible substitutes*, and *dead-end pathways* in each sector's **transition** category.

Approach to developing sectoral technical screening criteria

A range of approaches will be considered for informing the development of the taxonomy's sectoral technical screening criteria. Since each economic activity will have a distinct pathway to align with net zero by 2050, the technical screening criteria will be specific to the nuances of each activity while also reflecting the foundational elements laid out in this report. Taxonomies around the world use different approaches to developing technical screening criteria, and a range of these approaches will be relevant for informing the development of the Canadian taxonomy. The criteria will:

- predominantly use quantitative metrics that prioritize emissions performance;
- be forward-looking wherever possible;
- include sunset and/or sunrise dates where relevant;
- be revised as necessary during regular review periods;
- primarily focus on Scope 1 emissions but address Scope 2 and 3 emissions where feasible and/or material; and
- be informed by a range of robust methods.

Approach to sector prioritization

The Canadian taxonomy will prioritize guidance for green and transition activities. In the first phase of work (i.e., 2026-2027), the taxonomy will focus on **green** and **transition** activities to maximize its coverage of, and mobilize capital towards, activities that will have the greatest impact in decarbonizing Canada's economy and positioning it for long-term economic growth in a net zero world.

Guidance for the following six sectors will be prioritized over the first two years of the taxonomy:

1. Electricity
2. Buildings
3. Transportation
4. Mining
5. Manufacturing
6. Agriculture and forestry

1.0 **Introduction:** Creating the market clarity needed to accelerate investment into climate solutions

This section:

- defines sustainable finance taxonomies as a common, science-based tool for identifying and defining sustainable economic activities;
- outlines how a Canadian taxonomy can help increase competitiveness for global capital, lower transaction costs, mitigate greenwashing risks, and direct investment towards Canadian-specific priorities;
- explains the two established categories included in the Canadian taxonomy—**green** and **transition**—and describes a potential third category, **abatement measures**, which will undergo further feasibility research; and
- provides examples of how Canada's taxonomy can be used to support new financial products and support credible sustainability reporting, transition planning, and risk assessments.

As climate impacts intensify and the global energy transition continues, investors are proactively assessing their exposure to climate-related risks in their portfolios (La Caisse 2026; Ontario Pension Board 2023). In this context, Canada is developing a voluntary national sustainable finance taxonomy (the "taxonomy") to establish credible and standardized definitions for climate-aligned investments.

A common tool used in international markets, sustainable finance taxonomies create categories for economic activities based on how they align with sustainability objectives. Taxonomies are science-based, and improve clarity and confidence across the market by creating standardized metrics and common language. This helps companies, investors, and lenders make more efficient and informed investment decisions (Organization for Economic Co-operation and Development 2020 [hereafter OECD]).

Sustainable finance taxonomies have been developed globally for a range of sustainability issues, including climate mitigation, climate resilience, biodiversity protection, and marine habitat conservation. However, the vast majority of taxonomies focus, initially, on climate mitigation—reflecting both the urgency of this issue and the risks climate change presents to global economies. As explained in more detail in Section 2.1, climate mitigation (reducing greenhouse gas emissions) will be the initial focus of Canada's taxonomy.

1.1 A Canadian taxonomy will help improve market efficiency and mobilize investment.

Developing a Canadian sustainable finance taxonomy comes at an important juncture, as climate-related risks accelerate and increasingly shape global capital allocation decisions and the fundamentals of economic competitiveness. Large-scale capital investment is required across Canada's energy, industry, transportation, building, and natural resource sectors to maintain a carbon-competitive economy and to achieve Canadian climate goals. To build a net zero economy by 2050, Canada must attract an additional $115 billion annually in investment (Sustainable Finance Action Council 2022 [hereafter SFAC]).

An aerial view of downtown Toronto (LorneChapmanPhoto/Adobe Stock)

As a voluntary tool to support investment decisions, the taxonomy will clearly and credibly identify opportunities for climate-aligned investment in Canadian projects, sectors, and economic activities.[1] The Canadian taxonomy will serve multiple use cases, such as underpinning and facilitating the issuance of labelled financial instruments (e.g., green and transition bonds), improving the robustness of risk and investment analysis, and helping financial institutions and corporations standardize how they categorize financing and capital and operating expenditures (see Box 1).

Across these use cases, the Canadian taxonomy will improve market efficiency and facilitate capital flows to activities that are aligned with climate science (Tsang et al. 2023; Christensen et al. 2021). This results in multiple benefits, not only for investors and taxonomy users, but for Canadian interests writ large:

> **A more competitive economy:** Globally, about 70 taxonomies are in place or under development (Taxonomy Roadmap Initiative 2025a [hereafter TRI]). Developing a credible, made-in-Canada taxonomy that is interoperable (i.e., harmonized) with these international frameworks increases Canada's ability to attract global capital and support the international competitiveness of the economy (Smart Prosperity Institute 2026b [hereafter SPI]). Further, in jurisdictions like the European Union where taxonomies are used for regulatory compliance, a comparable Canadian taxonomy could increase market access for Canadian companies exporting to those markets (Institute for Sustainable Finance 2024 [hereafter ISF]).

1. The Canadian taxonomy will be anchored in the Paris Agreement and will be operationalized by using sectoral net-zero-by-2050 decarbonization pathways. See Section 2.3 for more details.

Reduced transaction costs: In the absence of a national standardized taxonomy, financial institutions must develop and implement their own assessment criteria. This increases complexity and raises the cost of green lending and financing, and creates inconsistencies in terms of how economic activities are assessed and which activities are deemed credibly aligned with climate science (Bardswick and Zvan 2023). A Canadian taxonomy can eliminate that burden and associated costs.

Lower greenwashing risks: Without a taxonomy, greenwashing concerns can reduce investor confidence in financial offerings that are marketed as climate-aligned (Dempere et al. 2024), hindering capital allocation. A consistent classification system for climate-aligned investments can boost investor confidence in an activity's claims and impacts, ultimately supporting capital allocation.

Increased investment in Canadian priorities: The Canadian taxonomy will help identify and mobilize investment toward Canada's specific decarbonization priorities across major sectors. Many economic activities in the Canadian economy are resource-based and hard to decarbonize. Existing global guidance for these activities is either absent, unclear, or nascent. A Canadian taxonomy can clarify what credible climate-aligned investments look like for these activities and help flow capital towards them.

To achieve these outcomes, the Canadian taxonomy will reflect Canada's large and varied geography, and its distinct legal and cultural landscape. That means consideration for Indigenous rights including Canada's legal and constitutional framework for Aboriginal and treaty rights. These distinct features will inform the taxonomy's guidance, including its safeguards.

1.2 The Canadian taxonomy will be a forward-looking classification tool that aims to add value to the global landscape.

The Canadian taxonomy aims to provide investors with a market-facing tool for classifying economic activities relevant to their alignment with climate objectives using standardized, science-based criteria. It is designed to be an ambitious, forward-looking tool to help investors make decisions today that serve their longer-term priorities.

Importantly, taxonomy guidance will be based on criteria aligned with science-based climate objectives—not national priorities beyond climate or short-term market cycles.

This report outlines a framework for the Canadian taxonomy with two distinct categories: **green** and **transition**. The focus of work in 2026 and 2027 will be on the development of technical screening criteria for priority sectors, centred on the **green** and **transition** categories.

- **Green:** This category applies to activities that are zero to near-zero emissions climate solutions, and to activities that directly enable these climate solutions. These activities are already aligned with a net zero future today, and as a result need to be scaled up to accelerate climate mitigation progress. Examples of green activities may include those related to renewable energy, batteries and storage, and electric vehicles.
- **Transition:** This category applies to activities that are emissions-intensive today but that have the potential to achieve the scale of decarbonization necessary to align with the **green** definition (i.e., zero to near-zero emissions) by mid century. As a result, these activities are likely to experience stable or growing demand in Paris-aligned pathways. Examples of transition activities may include those related to the production of steel, cement, chemicals, and agricultural products.

The report also outlines a potential third category, **abatement measures**, which is subject to additional feasibility research. If approved by the Taxonomy and Transition Planning Council, the **abatement measures** category would apply to select emissions-reduction investments for activities that are emissions-intensive and unable to achieve the life cycle emissions reductions necessary to align with Paris-aligned global pathways, primarily because of unabated fossil fuel combustion emissions at their end use. The work to undertake this assessment will begin in 2027. Further research will focus on determining whether sufficiently strong guardrails and credible technical screening criteria can be developed to ensure that eligible activities avoid carbon lock-in and asset stranding, and support the overall credibility, usability, and interoperability of the Canadian taxonomy.

Wind turbine installation (REC and ROLL/Adobe Stock)

Across all categories, the Canadian taxonomy will seek to add value to the global taxonomy landscape. Green activities are well defined by other taxonomies already in use globally (ASEAN 2025; Australian Sustainable Finance Institute 2025 [hereafter ASFI]; Monetary Authority of Singapore 2023 [hereafter MAS]). This creates an opportunity to move nimbly, establishing guidance that aligns with existing international taxonomies while ensuring that criteria reflect Canada's economic and regional context. Canadian guidance for the **transition** category, meanwhile, will fill an important gap in the global taxonomy landscape as most taxonomies have primarily focused on green activities. This guidance will clarify the types of investments that align transition activities with net zero pathways and reduce emissions in high-emitting sectors, such as the production of cement, steel, and chemicals, that the world will continue to depend upon in a net zero future (CBI 2025b).

Box 1. Intended end-uses of the taxonomy in Canada

The taxonomy will be a voluntary tool with a variety of potential end uses, including:

- **Use-of-proceeds financial products:** Issuers of green and transition debt and equity products will be able to use the taxonomy to substantiate the climate benefits of their offerings and attract more capital (Marshall et al. 2022). Specifically, this would enable issuers to align with recommendations of established global guidelines such as the Green Bond Principles, Climate Transition Bond Guidelines, and the Climate Transition Finance Handbook published by the International Capital Market Association (ICMA 2025). This will be particularly valuable for establishing a transition bond market in Canada, which will be essential in mobilizing capital to decarbonize emissions-intensive sectors. Transition-labelled instruments have been less utilized than their green-labelled counterparts, in part due to the difficulties associated with defining and identifying transition investments (ISF 2025). Creating standardized definitions that are linked to credible climate pathways can help to address these concerns and, as a result, open up financing opportunities for transitioning Canada's hard-to-decarbonize economic sectors (SFAC 2022).
- **Climate-related financial disclosures:** Taxonomies complement and support existing global reporting standards for how businesses disclose climate-related information. These include the International Sustainability Standards Board disclosure standards, adapted for Canada by the Canadian Sustainability Standards Board. Businesses can use the taxonomy to more credibly demonstrate how they are building climate into their business strategies—for example, by disclosing financial metrics such as percentage of taxonomy-aligned capital expenditures, operational expenditures, and revenue (SFAC 2022; ASFI 2025).
- **Corporate transition plans**: Taxonomies complement emerging best practices for corporate transition planning, which encourage businesses to align their capital and operational spending with managing climate-related risks and meeting climate targets (Transition Plan Taskforce 2023 [hereafter TPT]). Businesses can demonstrate that they have met this requirement by using taxonomy-aligned metrics to set and report on financial targets in their transition plans.
- **Risk assessments:** While Canada's taxonomy is not optimized as a risk management tool, it can add credibility and comparability to the efforts of Canadian financial institutions to assess their climate-related risk exposure. Financial institutions can use taxonomy-related metrics, such as the percentage of a portfolio that is taxonomy-aligned, as inputs in their risk and opportunity assessment processes. This can help them streamline their reporting process and create efficiencies.
- **Investment analysis:** Taxonomies can complement and support investors in their investment process. While application and use of the taxonomy will be voluntary, a common classification system of climate-aligned investments and specific criteria can support the investment process, including stewardship and engagement, and portfolio analysis and allocation in line with investor preferences (ISF 2026).

2.0 Laying the taxonomy foundations

This section:

- introduces the taxonomy's objective: climate mitigation;
- defines the six principles that will guide the taxonomy's development;
- describes the taxonomy's ambition, which will be anchored in the ambition of the Paris Agreement and operationalized using net-zero-by-2050 decarbonization pathways; and
- outlines the scope of the taxonomy, which is focused on activity-level climate alignment.

This section outlines the foundational elements that will underpin the development of the Canadian taxonomy. Namely, this includes the taxonomy's objectives, principles, ambition, and scope. Each element is informed by a jurisdictional and literature review, including assessing best practices in peer jurisdictions, expert and stakeholder engagement, and the recommendations laid out in the Taxonomy Roadmap Report published by Canada's Sustainable Finance Action Council (SFAC 2022).

2.1 Objectives: The first phase of taxonomy development will focus on climate mitigation.

In its first phase (i.e., 2026-2027), the Canadian taxonomy will produce guidance that focuses solely on the objective of climate change mitigation. Specifically, the climate mitigation objective will be defined by science-based criteria that are in line with the ambition of the 2015 Paris Agreement (further defined in Section 2.3).

After the taxonomy's initial phase, the taxonomy will be expanded to include other sustainability objectives. Decisions about subsequent phases of the taxonomy will take into account public feedback, a vast majority of which emphasized the importance of climate resilience and biodiversity protection.[2] This approach is similar to that taken by other jurisdictions, which generally focus first and foremost on climate mitigation, reflecting the urgency of reducing global emissions and the growing financial and economic risks that stem from unmitigated climate change (Climate Bonds Initiative 2025b [hereafter CBI]; TRI 2025a).

2.2 Principles: The taxonomy will be grounded in the principles of credibility, usability, interoperability, good governance, adaptability, and regional specificity.

This section lays out the core principles that will guide the development of Canada's taxonomy. These principles will not always be in perfect alignment and may, in some cases, raise important tradeoffs (for example, focusing on usability could compromise credibility). These tradeoffs will need to be carefully considered throughout the various stages of taxonomy development and implementation. Ultimately, however, the Canadian taxonomy will strike a balance across these principles to maximize its potential to accelerate capital flow toward climate-aligned investments.

The first three principles—credibility, usability, and interoperability—establish the taxonomy's direction and guide its design. The second three principles—good governance, adaptability, and regional specificity—guide the taxonomy's implementation and operationalization.[3]

Taxonomy Design Principles

- **Credibility:** The purpose of taxonomies is to establish credible definitions of climate-aligned investments. To be credible, the taxonomy will be grounded in current climate science, use quantitative assessment criteria wherever possible, and apply guardrails to minimize the risk of carbon lock-in and asset stranding within emissions-intensive sectors.
- **Usability:** To enable strong uptake within capital markets, the criteria for climate-aligned investments will need to be usable for organizations of varying size and maturity within both the financial and real economy sectors. To achieve this, the criteria will be informed by feasible and cost-effective technology pathways, communicated in simple and clear terms, designed to minimize the reporting burden for taxonomy users, and avoid creating market distortions.

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2. The first phase of the taxonomy will also integrate frameworks for Do No Significant Harm (DNSH) and Minimum Social Safeguards (MSS) to ensure that the pursuit of climate mitigation goals does not cause significant harm to other environmental and social values, or to Indigenous rights (see Section 2.5).
3. These principles broadly align with the principles used in peer jurisdictions (ASFI 2025; United Nations Environment Programme 2023 [hereafter UNEP]; EU 2021c [hereafter EU]), and those recommended by SFAC (SFAC 2022).

- **Interoperability:** To help facilitate cross-border capital flows, the Canadian taxonomy will be interoperable (i.e., harmonized) with other jurisdictions that have robust taxonomies. Incorporating interoperability into the design and development of the Canadian taxonomy involves, for example, harmonizing key concepts and terminology, using quantitative criteria where possible, and considering existing approaches to develop guidance for hard-to-abate activities (TRI 2025b).

Taxonomy Implementation Principles

- **Good Governance:** The development of the taxonomy is guided by an autonomous and independent Council of financial, climate, and governance experts that provides oversight and makes decisions based on recommendations from the research custodian. Input is provided from a Financial Sector advisory group, a Technical advisory group, and an International advisory group, along with input from sector-specific technical working groups. Indigenous leadership is integrated throughout the taxonomy's governance structure, at the Council, advisory group, and technical working group levels. Council decisions and the design of the taxonomy are also informed by diverse Indigenous perspectives, shared through dedicated dialogue sessions and one-on-one meetings with Indigenous experts and organizations. Accountability and transparency are core elements of this governance structure (see the BFP website for more detail).
- **Adaptability:** The Canadian taxonomy will be designed to provide forward-looking guidance, based on current understanding of climate science, technological development, and policy (see Section 4). Given that the state of technology can change rapidly, often in unpredictable ways, the taxonomy will need to adapt and change, as necessary. In practical terms, this will involve processes for proactive, regular reviews and updates as well as measures that will support taxonomy users as taxonomy criteria change.
- **Regional specificity:** To reflect varying economic and technical realities across Canada's geography, eligible activities and technical screening criteria will be designed to account for regional circumstances in rural, remote, Indigenous and northern communities.[4] The objective of this principle is to ensure the taxonomy is flexible enough to meet the realities of these communities while upholding ambitious decarbonization pathways and maintaining the credibility of the taxonomy. Regional flexibility is intended to reflect differences in technological feasibility, infrastructure, and community context, and not to prioritize regional economic interests at the expense of climate mitigation objectives. Regional differentiation may be operationalized by establishing differentiated pathways, tiered, region-specific technical screening criteria, or specific elements within Do No Significant Harm and Minimum Social Safeguards to recognize regional needs and contexts to allow for the taxonomy to be inclusive across regions.

4. Indigenous rights are also considered within the taxonomy's MSS framework. See Section 2.5 for further details

2.3 Ambition: The taxonomy will be anchored in the ambition of the Paris Agreement and operationalized by using net-zero-by-2050 decarbonization pathways.

To support both credibility and interoperability (see Section 2.2 above), aligning the Canadian taxonomy with climate science is paramount. The Paris Agreement, adopted by 195 international parties, establishes a scientific framework for guiding global climate mitigation ambitions. It requires signatories to limit "the increase in the global average temperature to well below 2° C above pre-industrial levels" and pursue efforts "to limit the temperature increase to 1.5° C above pre-industrial levels" (United Nations 2015).

Taxonomies around the world have anchored to Paris-aligned climate pathways, making it essential that Canada do the same for baseline interoperability (ASEAN 2025; ASFI 2025; MAS 2023; EU 2021c). Limiting warming to the limits agreed under the Paris Agreement will be critical to avoid the most severe climate impacts, and consequently reduce systemic financial risks to the global economy.

While the Paris Agreement serves as an important anchor to global taxonomies, applying it to the technical screening criteria within Canada's taxonomy raises important practical challenges. In particular, determining whether a particular asset or facility is aligned with the Paris Agreement requires making assumptions about the apportionment of global emissions across countries, within countries, and within sectors. These challenges ultimately make it difficult to discern whether the asset does or does not align with Paris pathways.

To address these challenges, the Canadian taxonomy will be anchored in the ambition of the Paris Agreement, with technical screening criteria developed based on sectoral net-zero-by-2050 decarbonization pathways. Specifically, activity classification will be based on demand in Paris-aligned pathways (see Section 3 for further detail), and technical screening criteria will be set based on sectoral pathways in Canada to achieve net zero.[5] This approach ensures that Canada's taxonomy—and its categorization framework in Section 3 in particular—is aligned with the necessary shifts in global markets to achieve well-below 2° C commitments to support interoperability while providing tangible and measurable goalposts relevant to Canada to operationalize the technical screening criteria (Section 4).

5. Canada's net zero target was established and legislated in response to the Paris Agreement and the 2018 IPCC Special Report on Global Warming of 1.5° C (Government of Canada 2021; IPCC 2018). It is worth noting, however, that the Paris Agreement and net-zero-by-2050 decarbonization pathways are not perfectly consistent. Designing the technical screening criteria around Paris-aligned pathways, specifically 1.5° C pathways, would likely require steeper and faster near-term emissions reductions across sectors than what is required under net zero decarbonization pathways. Still, achieving net zero emissions by mid century represents a robust and scientifically credible level of ambition for Canada's taxonomy, allowing interoperability with other jurisdictions.

2.4 Scope: The taxonomy will provide voluntary guidance for evaluating climate alignment of investments at the activity level.

The primary goal of the Canadian taxonomy is to provide a tool to classify investments as climate-aligned at the activity level (i.e., the project, asset, or facility level). It will be designed to complement and support other important aspects of sustainable finance (e.g., disclosure, transition plans, target setting).

For the **green** and **transition** categories, the taxonomy will not require entity-level commitments.[6] While this approach departs from the SFAC recommendation to require taxonomy users to meet entity-level requirements, like net zero targets and climate transition plans, in order to qualify for taxonomy alignment, it is consistent with international practice. Many taxonomies do not require entities to have a net zero target or transition plan in place for taxonomy alignment (see, for example, ASEAN 2025; Central Bank of Kenya 2025; MAS 2023). In addition, jurisdictions that did initially include this requirement, such as Australia, have since moved away from it because of usability challenges.

This proposed approach also reflects the role that taxonomies are intended to play within the broader framework of sustainable finance policies. A sustainable taxonomy establishes a common definition for sustainable economic activities (EU Commission 2026). It works as a complement to other sustainable finance policies, such as transition plan guidance or disclosure requirements, which enable investors to assess climate performance of economic entities.

While these policies and tools should be designed to work together, explicitly requiring taxonomy users to meet entity-level requirements could significantly undermine the taxonomy's market adoption, considering the low rates of transition planning in Canada, along with a lack of standardization on what constitutes a credible transition plan (BFP 2025; SPI 2026a).[7] As a result, to enable broader uptake of the taxonomy and accelerate investment toward decarbonizing the Canadian economy, the Canadian taxonomy will not *require* users to meet entity-level requirements but will *encourage* transition planning at the entity level once guidance is available.[8]

For the proposed **abatement measures** category, entity-level requirements will be considered as a guardrail as part of the process for researching the potential inclusion of that category in the taxonomy at a future date (see Section 3.4 and Section 5 for further details). This may include a credible entity-level transition plan to support alignment with decarbonization pathways. This is consistent with the Singapore-Asia Taxonomy, which requires entity-level transition plans for certain "Amber" investments, including high-emitting manufacturing and industrial activities, and coal plant owners under their early phase-out pathway (MAS 2023). The Australian Taxonomy also provides separate guidance for gas-powered generation through its "entity-level firming advice," where eligibility depends on the transition of the parent entity's overall asset base, not only the specific facility (ASFI 2025).

6. Entity-level considerations are, however, important for Minimum Social Safeguards, discussed in more detail in Section 2.5.
7. Only five per cent of Canadian companies disclose the necessary elements of transition plans, according to CDP (2024).
8. They will be referred to forthcoming guidance to be published by Business Future Pathways once it is available.

In a separate workstream, Business Future Pathways will be developing transition planning guidance at the entity level for the Canadian market, with the aim of increasing uptake of credible corporate transition planning, building on its initial report in late 2025. The next phase of work, which will provide general and sector-specific guidance on what makes a credible transition plan for taxonomy-aligned sectors in the Canadian market, is expected in 2027.

2.5 Safeguards: The taxonomy will require disclosure of alignment with Do No Significant Harm and Minimum Social Safeguards criteria.

Jurisdictions globally have developed Do No Significant Harm (DNSH) criteria and Minimum Social Safeguards (MSS) to ensure that taxonomy-aligned projects do not cause significant harm to other environmental and social values, or impact legal rights. In application, these frameworks require taxonomy users to demonstrate and disclose the extent to which activities meet specific criteria for both DNSH and MSS to claim taxonomy alignment. As outlined in Box 2, these frameworks are designed to protect the scientific credibility of taxonomies. For these reasons, a DNSH and MSS framework will be implemented within the Canadian taxonomy.

Box 2. Definitions of Do No Significant Harm and Minimum Social Safeguards

Do No Significant Harm (DNSH) is a foundational principle designed to ensure that an activity that substantially contributes to one environmental objective (such as climate change mitigation) does not cause significant environmental impacts to other environmental objectives. The DNSH criteria therefore functions as a safeguard against harmful environmental outcomes of an economic activity, typically assessed at the activity-level. Environmental objectives assessed through DNSH vary slightly by jurisdiction, but generally include climate change mitigation, climate change adaptation, protection of biodiversity and healthy ecosystems, water conservation, pollution prevention and control, and circular economy (ELS 2023).

Minimum Social Safeguards (MSS), meanwhile, are designed to protect against harmful social outcomes. They establish a baseline to ensure that taxonomy-aligned projects adhere to particular governance, legal, and ethical standards as well as with national regulations, laws, and/or standards (EU 2022). These criteria are typically assessed at the entity-level.

In other jurisdictions, assessments for both DNSH and MSS are undertaken after first ascertaining the activity's contribution to climate change mitigation through the technical screening criteria (EU 2021c; ASFI 2025).

Designing a DNSH and MSS framework that works for Canada raises several practical challenges. Jurisdictions around the world have developed a variety of frameworks and many have struggled with their practical implementation (GTAG 2023). Given that Canada is among the last G20 countries to develop a national taxonomy, it is in a unique position to learn from the experiences in other jurisdictions on how to strike the right balance between robust safeguards and usability (see Box 3).

Northwest Territories, Canada (HJ/Adobe Stock)

Part of the challenge is the need to define the reference point for each environmental and social objective, which then directly informs what constitutes "significant harm" or a "minimum safeguard." Whereas the climate mitigation objective can be grounded in the ambition of the Paris Agreement (or net zero emissions by 2050), many other environmental and social objectives do not have the same clear benchmark for how to assess whether a project or activity aligns. To address this challenge, most jurisdictions use some combination of national laws/regulations, international standards, and best practices (EU 2021a; EU 2021c; MAS 2023).

Yet it is also clear that DNSH and MSS frameworks are not a substitute for domestic laws or regulations, and the taxonomy itself—as a voluntary market tool—is not the appropriate mechanism to require or enforce higher standards on the private sector beyond those that are already required in existing laws or international standards. These frameworks can complement existing statutes (e.g., by linking directly to regulatory pollution limits) or, in some cases, can even signal higher ambition when international standards or practices go beyond domestic law. While taxonomies can encourage users to meet international standards and best practice, it is not their role or within their ability to enforce compliance with legal standards or international best practice.

Box 3. Disclosure-based approach and learnings from other jurisdictions

Experience from other jurisdictions suggests that stringent DNSH and MSS requirements can place significant burden on taxonomy users and, therefore, constrain taxonomy uptake (CBI 2026; ASFI 2026). This is particularly relevant for a voluntary taxonomy. Mandatory DNSH and MSS can create significant data collection, due diligence, and verification burdens on taxonomy users. The lack of standardized processes for evidencing alignment with DNSH and MSS criteria can raise assurance and transaction costs, particularly for issuers with a wide range of underlying activities and expenditures, such as sovereigns. A mandatory approach to DNSH and MSS could result in the unintended consequence of making taxonomy-aligned activities more costly. Climate Bonds Initiative research across 13 countries found DNSH stringency was negatively associated with uptake, supporting a phased approach that reflects market capacity rather than requiring full compliance from launch (CBI 2026). The study explains how launching with workable requirements and tightening them over time can help avoid a framework in which few activities initially qualify. Therefore, a disclosure-based approach can preserve transparency by requiring users to identify alignment with criteria, as well as any gaps, without making full alignment a condition of classification.

During the 2026 public comment period for the Canadian taxonomy, some respondents suggested that a subset of objectives within DNSH and MSS should be treated as minimum mandatory standards for taxonomy alignment, particularly Indigenous rights. Developing a mandatory standard for Indigenous rights requirements necessitates appropriate expertise, governance, and Indigenous leadership in the development of these standards. Such an effort would require an Indigenous-led process. It is recommended that future work on the taxonomy revisits minimum mandatory standards for Indigenous rights within the next two to five years, when there is greater clarity around standards for meeting UNDRIP and FPIC obligations, and mandatory MSS alignment is revisited.

Based on the lessons learned in other jurisdictions, the Canadian taxonomy's DNSH and MSS framework will apply a **disclosure-based approach**, which will require taxonomy users to disclose which applicable DNSH and MSS criteria are met, or not met.[9] This approach will require taxonomy users to demonstrate that the activity meets relevant sectoral technical screening criteria for climate mitigation and disclose the extent to which all applicable DNSH and MSS criteria are met. If disclosure is not possible for certain criteria, the user must provide an explanation (i.e., disclose or explain). Within this approach, taxonomy-aligned projects are expected to meet and align with all relevant and required laws applicable to the jurisdiction in which the project operates and are encouraged to remedy potential impacts.

The recommended disclosure-based approach supports usability of the taxonomy while creating transparency around activities' environmental,social, and Indigenous rights impacts. Specifically, the required "disclose or explain" approach strengthens transparency and accountability by ensuring market participants have a clear sense of why certain DNSH/MSS criteria were or were not met.

In addition to increasing usability of the taxonomy, the disclosure-based approach reflects the taxonomy's core function, which is to classify economic activities and provide the market with a clear, credible, and comparable basis for identifying **green** and **transition** activities while protecting other values and rights.

It is recommended that the **disclosure-based approach** be revisited in the next two to five years to consider whether standardized definitions and data availability have evolved enough to make mandatory alignment with criteria meaningful and attainable.

The following subsections outline in greater detail how the Canadian framework for DNSH and MSS will work in practice.

9. A disclosure-based approach is aligned, for example, with that taken in Australia, where entities must disclose which DNSH and MSS criteria are met (ASFI 2025).

Elements of the Canadian Taxonomy's DNSH framework

The environmental objectives covered in Canada's DNSH framework are climate change adaptation, protection of biodiversity and healthy ecosystems, water conservation, pollution prevention and control, and circular economy.[10,11] This list covers the different types of environmental objectives relevant to the Canadian context and is broadly consistent with the objectives considered in international DNSH frameworks, such as the EU, Australia, and ASEAN (EU 2021c; ASFI 2025; ASEAN 2025).

The DNSH criteria for what constitutes "significant harm" to environmental objectives will use a two-pronged approach:

1. **generic DNSH criteria** that provide a foundation across all sectors; and
2. **sector-specific DNSH criteria** that cover sector-specific material impacts not covered under the generic criteria.

This approach is consistent with those taken in other jurisdictions, notably the EU, ASEAN, and Australian taxonomies (EU 2021c; ASEAN 2025; ASFI 2025). Both the generic and sector-specific criteria will be developed and defined during the next phase of taxonomy development, open to public comment later in 2026.

Generic DNSH criteria would include requirements that indicate that an activity does not cause significant harm to the environmental objectives listed above. Generic DNSH criteria will apply to activities across all sectors. Generic DNSH criteria could include, for example, conducting environmental impact assessments for large-scale infrastructure projects or, in other cases, a climate risk assessment and a plan for addressing physical climate risks. Generic DNSH criteria will be grounded in Canada's existing laws, regulations, and policy. This follows international best practice, where existing statutes are used as the baseline for generic DNSH criteria (EU 2021c; ASEAN 2025; ASFI 2025). Where generic DNSH criteria go beyond existing laws, regulations, and policy, they will be grounded in international standards such as the IFC Performance Standards, UN Guiding Principles, OECD Guidelines, and International Labour Organization Conventions, among others.

Sector-specific DNSH criteria will indicate requirements—where relevant to a specific activity—that need to be followed in addition to the generic DNSH criteria (EU 2021a). Sector-specific DNSH criteria could include, for example, specific quantitative limits (e.g., pollution thresholds), mandatory waste management plans, or best available techniques for manufacturing. Sector-specific criteria will be developed alongside technical screening criteria for established activities within the priority sectors.

10. At this stage, all mitigation-related objectives (e.g., emissions from land use) will be covered through the development of technical screening criteria on a sector-by-sector basis.
11. Biodiversity and ecosystem protection typically include sub-objectives, such as impacts related to noise and air, and impacts on soil. These sub-objectives will be included in the DNSH framework, given their relevance in the Canadian context.

Elements of Canada's MSS framework

The objectives covered in Canada's MSS framework are Indigenous rights, human rights, labour standards, corruption and bribery controls, and taxation integrity. The latter four safeguard domains are generally embedded in other jurisdictions (such as the EU, Climate Bonds Initiative, and ASEAN taxonomies) and are typically grounded in a range of international standards and guidelines.[12]

Indigenous rights are included as a distinct pillar within the Canadian MSS framework, given the impacts that many economic activities could have on Indigenous rights holders and Canada's legal framework that affirms Indigenous rights and title (see Box 4 for more detail).[13] Indigenous rights are distinct from other MSS objectives as they are grounded in Section 35 of the Constitution Act and the 2021 United Nations Declaration on the Rights of Indigenous Peoples Act. Peer jurisdictions such as Australia and New Zealand have also included Indigenous rights within their MSS frameworks (ASFI 2025; CSF 2025).

The process for determining MSS alignment will include both **entity-level MSS criteria** and **activity-level MSS criteria**. Both entity-level and activity-level criteria will be developed and defined during the next phase of taxonomy development, open to public comment later in 2026.

Entity-level MSS criteria will be grounded in foundational national and international standards to ensure entities seeking taxonomy alignment meet minimum governance, legal, and ethical standards. Entity-level MSS criteria will follow what is commonly considered as a "risk-based due diligence approach," where entities proactively identify, prevent, mitigate, and account for how they address actual and potential adverse social and governance impacts across their operations (OECD 2018). Both the EU and Australian taxonomies assess MSS at the entity level (EU 2021c; ASFI 2025).

Activity-level MSS criteria will include specific due diligence requirements at the activity level and will be aligned with national legislation, which establishes a credible and legal baseline for social and rights-based standards. To operationalize this baseline with credible and auditable processes, universal standards such as the International Finance Corporation's Performance Standards (IFC PS) may also be used to assess project-level impacts, among others such as UN Guiding Principles, OECD Guidelines, International Labour Organization Conventions.[14] The Australian taxonomy provides a partial precedent for this approach: while entities are assessed against its MSS framework, the First Nations rights criteria are triggered where an entity's activity has "a potential or actual impact on First Nations rights or interests," and they require operational-level impact assessment, reporting, and Free, Prior, and Informed Consent engagement (ASFI 2025).

12. International frameworks that are generally referenced by other MSS standards include the UN Guiding Principles on Business and Human Rights, the International Labour Organization's Labour Conventions, and the OECD's Guidelines on Multinational Enterprises.
13. Because Indigenous Peoples hold inherent, legally recognized individual rights and title over their land, resources, and culture, as recognized by Canadian and international courts and legislation, they are considered rights holders.
14. For example, assessing under PS2 for impacts to human rights or under PS7 for impacts to Indigenous rights, are common methods for identifying potential project-level non-compliance with MSS criteria.

Box 4: Indigenous rights and the Canadian taxonomy

Ensuring that all taxonomy-eligible projects demonstrate respect for Indigenous rights and title is paramount to the taxonomy's credibility. Many taxonomy-eligible projects will be located on Indigenous traditional territories and may be near Indigenous communities, particularly in the case of large-scale electricity generation, transmission, and resource-extraction projects. And while some of these projects may be fully or partially Indigenous-owned and -led, Indigenous peoples in Canada have been systematically excluded from economic development opportunities in the past. These historical and ongoing impacts emphasize the need to ensure that projects aligning with the taxonomy's climate criteria do not perpetuate inequities with Indigenous nations and communities (Truth and Reconciliation Commission of Canada 2015; Horowitz et al. 2024; Vecchio 2022, Deloitte 2026).

In addition, Canadian law affirms and upholds Indigenous rights and title, including through Section 35 of the Constitution Act and the 2021 United Nations Declaration on the Rights of Indigenous Peoples Act. Canada's Indigenous rights criteria will be a distinct, rights-based objective within the MSS framework and will be grounded in this legal context.

As a voluntary tool for the classification of climate-aligned activities, the taxonomy and associated disclosures cannot and should not make legal determinations about whether section 35 obligations or Crown consultation requirements of FPIC have been satisfied as these are determined outside the taxonomy mandate and framework. In line with the taxonomy's role, the disclosure-based approach for Indigenous rights criteria will focus on meaningful transparency to strengthen accountability among taxonomy users for respecting Indigenous rights while not determining outcomes.

Specific entity-level and activity-level criteria for Indigenous rights will be developed with the input of Indigenous experts and integrated into the taxonomy's technical screening criteria. These will be published for public comment in late 2026, at which time the Taxonomy and Transition Planning Council will seek additional feedback from Indigenous leaders and experts.

The disclosure-based approach can be revisited in the future to determine whether these safeguards should become mandatory. In addition, if a more formalized Indigenous-led framework is developed in the future, independent from this effort (e.g., an Indigenous taxonomy), this could be directly integrated into the MSS framework and criteria.

In other jurisdictions, the treatment of Indigenous rights in taxonomies has been operationalized through the International Finance Corporation's Performance Standard 7 (or IFC PS7), which details procedural requirements for projects affecting Indigenous Peoples. Although not a law, it becomes contractually binding when projects are financed by the IFC or any other Equator Principles Financial Institutions (EPFIs), is required under investor compliance, or adopted as an internal standard by major corporations. International standards may inform criteria such as disclosure requirements, due diligence, engagement, and grievance mechanisms, but will not replace Canada's Section 35 obligations towards Indigenous peoples and other applicable laws. Canada's Indigenous rights MSS criteria will be grounded in Canadian legal context.

It is important to note that there could be situations where projects have the consent of, or are led by, Indigenous communities but do not align with the taxonomy's climate mitigation objective and ambition. Given that the taxonomy is a voluntary framework, these projects could still move ahead and receive financing outside of the taxonomy's framework.

3.0 Defining the taxonomy's categories

This section:

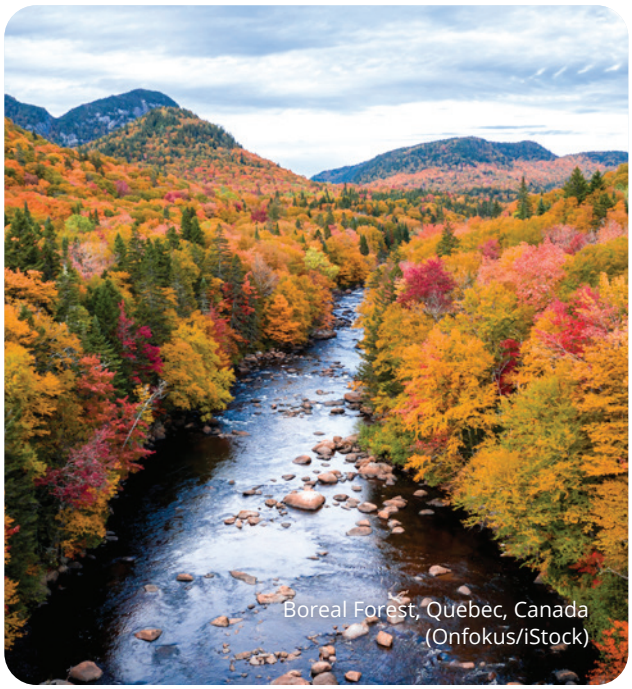
- outlines a framework for categorizing **green**, **transition**, and **abatement** activities.
  - **Green activities** include zero to near-zero emissions climate solutions and activities that directly enable these climate solutions. Higher emitting activities within a climate solution's supply chain will not fall into this category.
  - The **transition category** includes two distinct pathways: (1) a **whole-of-activity transition** pathway that applies to the entirety of an asset or operation and (2) a **transition measures** pathway that applies to specific improvements to an asset or operation that materially reduce its emissions.
    - The **transition** category would include activities such as the production of steel, cement, chemicals, and agricultural products but would not include activities related to oil and gas production, which could be captured in the **abatement measures** category.
  - Research will be undertaken to determine the feasibility of an **abatement measures** category, which, if developed, would apply to specific, ring-fenced investments that significantly reduce emissions in sectors like oil and gas in the short-term and that comply with a set of robust and science-based guardrails to avoid locking in infrastructure and emissions that are inconsistent with Paris-aligned pathways.

This section summarizes the taxonomy's activity classification framework, which will be used to 1) determine which activities are eligible for inclusion within the taxonomy and 2) inform how activity-specific technical screening criteria will be developed, which will determine whether an activity is aligned with the taxonomy (see Sections 4 and 5 for more detail on technical screening criteria and the selection of priority sectors).

3.1 The taxonomy's categorization framework will create categories of eligible economic activities.

The Canadian taxonomy's activity classification framework, as illustrated in Figure 1, sorts activities into distinct categories based on their relative alignment with the taxonomy's science-based ambition (defined in Section 2.3), the extent to which activities can make a substantial contribution to climate mitigation, and the resulting exposure to transition-related risk and opportunity in Paris-aligned pathways.[15]

The activity categorization framework is grounded in the concepts of demand- and supply-side risk, and demand-side opportunity.[16] These concepts are used to inform what types of activities are likely to face demand growth—or demand decline—in Paris-aligned pathways, along with what types of emissions (Scopes 1, 2, or 3) are material to the future economic viability of specific activities in these Paris-aligned pathways.[17]

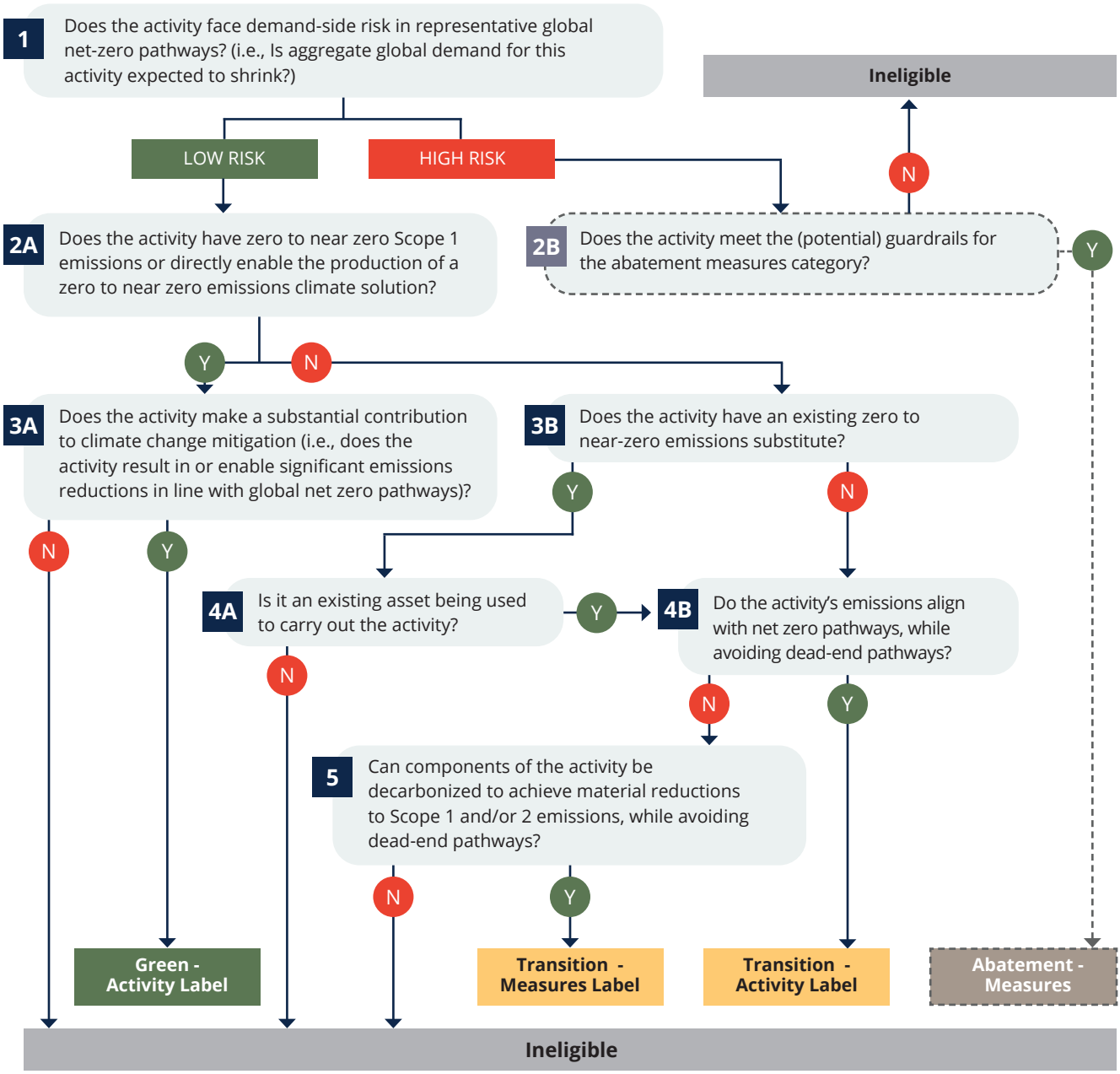


Boreal Forest, Quebec, Canada (Onfokus/iStock)

Importantly, the framework categorizes activities based on their gross emissions, which excludes any carbon offsets that may be purchased by asset owners to lower net emissions at an asset or entity level.[18] This is to ensure that the taxonomy encourages direct, asset-level emissions reductions, which lowers asset-level transition risk exposure in Paris-aligned pathways (SFAC 2022). To reflect this requirement, activity-specific technical screening criteria, when developed, will set emissions thresholds and other technical requirements based on the scale of direct emissions reductions that each economic activity will need to achieve to align with net zero by 2050.

15. It is important to note that the concept of risk and opportunity is used in the taxonomy categorization framework to assess the relative alignment of activities with climate science. In this sense, it assesses activities based on their conditional risk within a defined range of scenarios (i.e., those aligned with the Paris Agreement). The framework is therefore not optimized for the broader purposes of risk management or as a standalone risk management tool (which, for example, hinges on the future of policy, markets, and technologies).
16. See the glossary for definitions of demand-side risk and supply-side risk.
17. See the Institute's 2021 report, *Sink or Swim*, for more detail on how these concepts were developed (CCI 2021).
18. Exclusion of offsets is consistent with the SFAC Roadmap Report.

Figure 1. Activity classification framework for the Canadian taxonomy



----- Dashed Outline: Potential category subject to further research

*The taxonomy's activity classification framework evaluates an economic activity's eligibility for the **green**, **transition**, and (potential) **abatement measures** categories. The activity classification framework evaluates an economic activity based on expected demand in global Paris-aligned pathways, supply side risk (i.e., Scope 1 emissions or directly enabling climate solutions), availability of technologically feasible zero to near-zero alternatives, alignment with net zero decarbonization pathways, and broader risk of carbon lock-in and asset stranding, including the risk of locking activities into dead-end pathways. Net zero decarbonization pathways will be determined based on a combination of modelling, literature review, and engagement with technical experts and industry stakeholders.*

Specifically, the taxonomy framework will include two categories of eligible economic activities: **green** and **transition**, while a third potential category, **abatement measures**, is subject to further research.

An overview of each category is provided below, with examples (see Figure 2). The activities that qualify for each category will be specified in the development of technical screening criteria (see Section 4).

Figure 2. Categories for the Canadian taxonomy

CLASSIFICATION	GENERAL PRINCIPLE	EXAMPLES
Green-eligible activities	• Zero to near-zero emissions climate solutions, or activities that directly enable these climate solutions • Experience demand growth in Paris-aligned pathways • Embody low transition risk and high transition opportunity, and must expand to achieve Canada's net zero commitment	Renewable energy generation, batteries and storage technologies, electric vehicles
Transition-eligible activities and measures	• Materially high Scope 1 emissions today • Potential to achieve scale of decarbonization necessary to align with green definition by 2050 • Continued stable or growing demand in Paris-aligned pathways due to a lack of technically feasible low-carbon substitutes	Cement, steel, and chemicals manufacturing

Potential category subject to further research

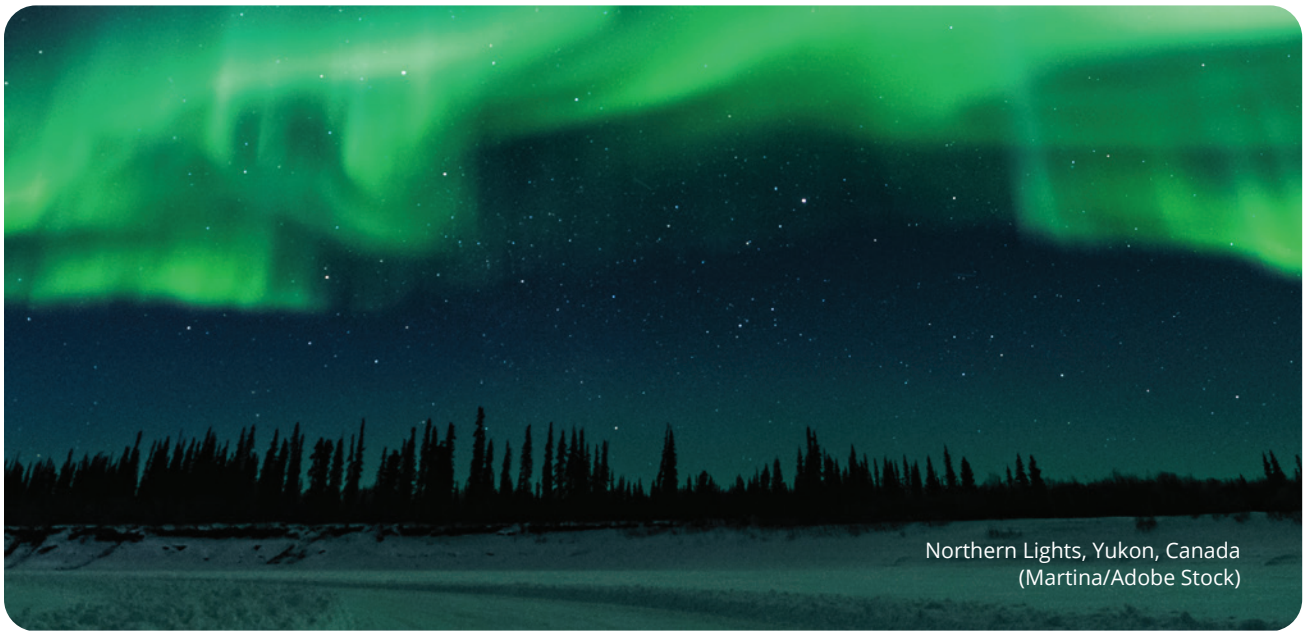
Abatement-eligible measures	If included: • Select emissions-reduction investments for activities that have materially high Scope 1 emissions • High likelihood of declining global demand in Paris-aligned pathways, due to high downstream Scope 3 emissions that cannot be fully decarbonized	If included: Select emissions-reduction projects in upstream oil and gas production

Not all economic activities can make a substantial contribution to mitigating climate change, either because they are incompatible with achieving net zero and need to be phased out immediately or they provide services that do not directly contribute to or enable emissions reductions (e.g., healthcare or education). These activities would be screened out of the framework, as is also done within the activity classification framework proposed in the SFAC Roadmap Report (SFAC 2022; UNEP 2023).

General requirements for **green** and **transition** activities are outlined in Sections 3.2 and 3.3. These will inform the development of activity-specific technical screening criteria and function to mitigate risk that investments into these activities increase the risk of carbon lock-in and asset stranding (particularly within the **transition** category). Section 3.4 presents an overview of the potential third **abatement** category and the next steps that will be taken to determine its feasibility and alignment with the taxonomy's ambition.

Importantly, the activity classification framework in Figure 1 is not meant to be applied by taxonomy users but informs how the Institute and Business Future Pathways will develop the taxonomy. Classification of activities into green and transition categories, and sector-specific technical screening criteria will directly integrate the guardrails in the activity classification framework. As a result, taxonomy users will not be required to assess whether an activity falls within the green or transition categories, only whether the activity meets relevant technical screening criteria.[19]

Guidance for applying the taxonomy to the issuance of labelled financial instruments, such as green and transition bonds, will be provided at a later stage of taxonomy development. Initial considerations for users seeking to apply the taxonomy for labelled financial instruments are outlined in Box 5.



Northern Lights, Yukon, Canada
(Martina/Adobe Stock)

19. As well as DNSH and MSS criteria on a disclosure-basis.

Box 5. Labelled financial instruments and alignment with ICMA principles

Applying the taxonomy for labelled financial instruments, such as green or transition bonds and loans, raises important market-implementation considerations. When issuing labelled debt, entities or businesses typically follow standardized market guidance, such as the International Capital Market Association's Green Bond Principles. This guidance ensures that the funds are solely allocated to specific projects or activities, in addition to other requirements such as annual reporting on projects financed by the instrument (ICMA 2026).

Although taxonomies inform financial instrument labels, taxonomies and labels serve different purposes. A taxonomy categorizes activities based on criteria within a specific jurisdiction while a label applies to financial instruments and communicates how proceeds will be used.[20,21] Whereas a taxonomy is used to evaluate a single activity, a financial instrument may finance multiple activities across taxonomy categories. Market guidance also imposes additional requirements on the application of financial instruments—such as annual reporting on the use of proceeds—beyond what taxonomy classification requires. Given these differences, taxonomy alignment and financial instrument labels may not always directly map onto one another; for example:

- An instrument financing a taxonomy-aligned activity is not required to have a designated green or transition label (e.g., a corporation may obtain financing for a green activity but may choose not to label the financial instrument as green due to administrative reasons),
- A green or transition financial instrument labelled in line with market guidance may not necessarily be taxonomy-aligned, either because alignment with the taxonomy has not been assessed, the taxonomy has not yet developed guidelines for a specific sector, or because activities fall outside the taxonomy's jurisdiction.

The Canadian taxonomy's classification of activities into categories may not always directly correspond to labels under market guidance, such as the taxonomy's treatment of an enabling activity compared to ICMA's Green Enabling Guidelines (see Section 3.2). The Australian taxonomy's debt guidance acknowledges potential differences between the taxonomy and market standards, noting taxonomy classifications do not equate to the label to be applied under market standards, with issuers expected to determine the appropriate label (ASFI 2026).

Taxonomy alignment should inform and add credibility to labelling decisions. Once sector-specific criteria for priority sectors are available, entities applying financial labels in line with market standards should disclose taxonomy alignment where possible to provide transparency on underlying activities.

Market practice typically also requires external reviews of a labelled financial instrument's use of proceeds and disclosure of taxonomies referenced if applicable, as recommended by ICMA's Guidelines for External Reviews, and Green Bond Principles (ICMA 2025, ICMA 2026). This may include pre-issuance external reviews and post-issuance review to verify funds are tracked and allocated as intended.

20. Green- and transition-labelled instruments are typically "use-of-proceeds" instruments where proceeds are allocated to specific projects that align with green and transition definitions.
21. The taxonomy may also inform measures and metrics for sustainability-linked instruments.

Labelling decisions may also change over time as the taxonomy is periodically updated and eligibility of activities changes as sunset and sunrise criteria are introduced. To support issuers through these changes, other taxonomies have included clauses that give defined grace periods to align with the updated criteria as well as guidance for outstanding labelled financing instruments when criteria are updated (ASFI 2026; ASEAN 2025).

Detailed implementation guidance for financial instruments will be developed at a later stage of taxonomy development.

3.2 The green category includes zero to near-zero climate solutions and activities that directly enable these solutions.

The **green** category captures economic activities that substantially contribute to climate mitigation through their own performance and are inherently zero to near-zero emissions by nature (e.g., zero to near-zero emissions climate solutions), or by directly enabling zero to near-zero emissions climate solutions. As a result, these activities must be ramped up rapidly in order to support a net zero economy.

To align with the **green** category, an activity must be:

1. a zero to near-zero emissions climate solution (e.g., renewable energy and electric vehicles); or
2. an enabling activity whose direct output is a zero to near-zero climate solution (e.g., electric vehicle manufacturing facilities).

Limiting the **green** category to zero to near-zero emissions climate solutions and directly enabling activities sets a high level of ambition for the category, ensuring that green investments are net zero-ready today (i.e., they will not require major changes in order to meet mid-century net zero benchmarks).[22] It is also consistent with the approach recommended in the SFAC Taxonomy Roadmap Report (SFAC 2022). The definition of near-zero will differ across economic activities and will be determined through the development of the technical screening criteria (see Box 6), and will also include the potential for carbon removal—or negative emissions—technologies.[23] Importantly, how the taxonomy defines near-zero emissions for the **green** category will likely need to tighten over time.

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22. In contrast, other taxonomies allow emission-intensive activities that meet Paris-aligned emissions benchmarks today, and require significant declines to maintain alignment in the future, to be included under the green label (ASEAN 2025; ASFI 2025; MAS 2023). This approach does not communicate the very different degrees of risk incurred by climate solutions versus more emissions-intensive activities that, although meeting net zero emissions benchmarks today, will need to make significant changes to stay on track in the future.
23. Carbon removals directly reduce an activity's emissions by removing an equivalent quantity of carbon dioxide from the atmosphere, and hence may be eligible under the green category.

Box 6. Determining whether an activity has a zero to near-zero emissions substitute

A key determinant of an activity's classification under the Canadian taxonomy is whether it has a technically feasible zero to near-zero emissions substitute that can deliver a functionally equivalent economic output. For example, a passenger electric vehicle can fully substitute for an emissions-intensive internal combustion engine since it enables the same economic output: passenger transportation.

The Canadian taxonomy will assess technically feasible substitutes on an activity-by-activity basis in the next phase of work—the development of sectoral guidance. The factors that determine feasibility and substitutability are highly specific to individual activities.

The assessment will consider criteria such as: the market readiness and potential scalability of alternatives; the availability of infrastructure and inputs needed to support the deployment of alternatives; and whether alternatives can deliver equivalent functions to the activity that they would be replacing.

This framework also provides a clear definition of what constitutes an enabling activity within the **green** category. To be eligible as enabling, activities must:

- have a clear, demonstrable, and directly attributable link to an eligible **green** activity, regardless of where the activity sits in the supply chain; or
- be zero to near-zero emissions activity.

Enabling activities play an intrinsic role in the delivery of zero to near-zero climate solutions. For example, an electric vehicle or solar panel manufacturing facility, or the transmission and distribution of clean electricity, could qualify as enabling activities where the direct link to supporting a climate solution is clear and demonstrable. For activities with multiple outputs or end uses (e.g., the mining of critical minerals), only the share of output that is directly and demonstrably attributable to eligible green activities can qualify, with criteria established for determining that share. Like zero to near-zero emissions activities in the **green** category, criteria for enabling activities would also need to tighten over time to ensure improved performance.[24]

24. A manufacturer of solar panels, for example, may have low Scope 1 emissions relative to other heavy industrial sectors today; however, these emissions will likely become more material in the future as climate targets draw closer and the global energy transition advances. These emissions will be covered in the Canadian taxonomy as it gets updated over time within each sector's technical screening criteria.

Importantly, the guardrails above ensure that enabling activities align with the ambition of the **green** category. For example, not all activities upstream of a climate solution necessarily or exclusively go toward that climate solution. For example, critical minerals supply batteries for EVs as well as for general electronics and defence applications, whereas a battery manufacturing facility for EVs directly and exclusively enables a climate solution.[25] Upstream activities will not be considered aligned with the **green** category unless they have zero to near zero emissions or have a clear, demonstrable and directly attributable link to an eligible green activity, and will instead be evaluated against the taxonomy's **transition** category.

This approach for defining enabling activities is consistent with the approach taken within peer jurisdictions.[26] The Australian taxonomy, for example, categorizes manufacturing of climate solutions under its **green** category. Critical mineral mining, on the other hand, whose output may or may not produce materials exclusively for enabling technologies, must have zero to near-zero emissions to align with the green category; otherwise, they can align with the **transition** category subject to meeting the criteria associated with this category (ASFI 2025).

3.3 The transition category includes emissions-intensive activities that can achieve deep emissions reductions and have stable or growing demand in Paris-aligned pathways.

Getting Canada's heavy industrial sectors on a net zero path—one that ultimately aligns with the **green** category—requires significant new decarbonization investment. Yet the absence of a common and credible definition for "transition" has made it more challenging to attract global capital from investors seeking climate-aligned opportunities (see Box 7) (Harnett et al. 2024). The taxonomy's **transition** category will help to fill this financing gap by creating credible definitions and standards for net zero pathway-aligned investments for emissions-intensive activities, with the goal of getting these activities to eventual alignment with the **green** category by 2050.

25. It can be difficult to estimate the extent to which each step in the supply chain contributes to the production of a climate solution. For example, mineral supply chains are highly complex and global, which limits product traceability and would pose barriers to calculating the extent of a mine's outputs that are directed towards producing electric vehicle batteries (Al-Aini 2025).
26. This approach to defining enabling activities differs from ICMA's Green Enabling Project Guidance, which extends the definition of green-enabling activities to the broader supply chain for the production of climate solutions, such as the mining of critical minerals. However, the ICMA definition is consistent with the Canadian taxonomy framework in that they both require no carbon lock-in and require a clear, quantifiable, and attributable environment benefit. See Box 4 for implementation considerations for labelled financial instruments.

Box 7. Challenges for defining transition finance

Defining a **transition** category for climate-aligned investments that is commonly understood, usable, and avoids common pitfalls is a challenging and complex task. Lack of a common definition has created challenges for investors trying to identify credible investments for decarbonizing emissions-intensive activities and hampered the development and scalability of transition finance instruments, such as transition bonds.

In part, this is because the term "transition" is used in different ways, such as:

- to describe broad levers of transition in the economy, which include ramping up climate solutions, decarbonizing emissions-intensive activities, and phasing out activities that will play a diminishing role in a net zero global economy (CBI 2025a);
- to categorize activities that generate any level of emissions reductions relative to the status quo, even if they do not align with Paris-based pathways (e.g., substituting unabated natural gas for coal);
- to describe a process of change over time, such as the decarbonization of business operations; and
- to label investments designed to support the decarbonization of emissions-intensive activities (i.e., transition bonds).

These different and inconsistent uses of "transition" have made standardization challenging. There is disagreement, for example, within the market and definitional frameworks around whether certain emissions-intensive activities that may face declining demand should be categorized as "transition". In some domains, these activities are included within the **transition** category (see ICMA 2025). Others, like ASFI 2025, limit the use of their transition label to just the activities that will experience stable or growing demand in a net zero economy in line with a 1.5° C pathway.

The **transition** category includes activities that are emissions-intensive today but have the potential to achieve the scale of decarbonization necessary to align with the **green** definition by mid century. As a result, these activities are likely to experience stable or growing demand in Paris-aligned pathways. This terminology is consistent with the Australian taxonomy, and corresponds to what the ASEAN and Singapore taxonomies refer to as "amber" activities.

To be applicable to a broad selection of emissions-intensive activities, the Canadian taxonomy creates two pathways for investments under the **transition** category: **whole-of-activity** and **transition measures**. The whole-of-activity pathway allows an entire activity to be taxonomy-aligned (for example, the operation of a cement plant) while the transition measures pathway allows a specific project applied to the asset carrying out that activity to be taxonomy-aligned (for example, installing carbon capture equipment or switching to lower-carbon fuels at a cement plant). Further elaboration on the distinction between these two pathways is below (see Figure 3).

This approach supports the principle of interoperability as it is consistent with the Australian, ASEAN, and Singapore taxonomies, with slight variations in terminology (ASEAN 2025; ASFI 2025; MAS 2023). The whole-of-activity **transition** category and transition measures category correspond respectively to what the ASEAN and Singapore taxonomies refer to as "amber" activities and “amber measures”. The Australian taxonomy uses the same terminology to refer to the whole-of-activity **transition** category and has a category that is equivalent to the Canadian taxonomy’s transition measures category, but refers to it as the “decarbonization measures” category.

Eligibility for the **transition** category will be time-bound (ISF 2026). As this category is designed to support activities on the path toward the **green** category, transition eligibility will evolve over time. Technical screening criteria for activities within either transition pathway (i.e., whole-of-activity or measures) will reflect timelines after which activities must either meet the **green** criteria or no longer qualify for the **transition** category (see Section 4.2 for the proposed approach to sunset and/or sunrise dates).

To maintain consistency with the taxonomy’s Paris-aligned ambition, the **transition** category will minimize the risk that investments lead to carbon lock-in or asset stranding. To this end, the classification framework is designed to exclude investments that do one or both of the following:

- support new emissions-intensive infrastructure when a low-carbon substitute can already be cost-effectively deployed (CBI 2025b); and/or
- lock activities into technological pathways that, as a result of either feasibility or resource constraints, will ultimately be unable to drive the scale of reductions necessary to enable the activity to align with net zero by 2050—referred to hereafter as dead-end pathways (Rosenbloom et al. 2025).

The development of technical screening criteria will operationalize **transition** category concepts and guardrails such as: “materially reduce”, “potential to decarbonize sufficiently”, “technically feasible substitutes”, and “dead-end pathways”. Technical screening criteria will directly integrate and illustrate how these concepts will be used in practice.

Activities related to the production of oil and gas will not fall within the **transition** category but could be included within the **abatement measures** category, if it goes forward pending feasibility research (see Section 3.4).

Engineers inspecting large solar power panels in field
(Serhii/Adobe Stock)

Figure 3. Whole-of-activity and transition measures

GREEN	TRANSITION	*Potential category subject to further research*	ABATEMENT (TBD)
Activities: ✔	**Activities:** ✔		**Activities:** ✘
Measures: N/A	**Measures:** ✔		**Measures:** ✔
Any and all investment associated with an activity if it has zero to near zero Scope 1 emissions or directly enables the production of a zero to near zero emissions climate solution.	Activity: any and all investment associated with an asset if it is on a net zero pathway. Measures: any investment in a designated technology, practice, material, or service that materially reduces the asset's emissions (not the whole activity itself). Activities and measure must also meet additional guardrails to be taxonomy-eligible.		If approved, the label would only apply to select measures that materially reduce emissions. Measures would also need to meet additional guardrails to be eligible. The feasibility of effective guardrails will be researched beginning in 2027.
Examples • Renewable energy generation • Batteries and storage • Electric vehicles	**Examples** • Activities: Open-pit mine, livestock farm, existing steel plant • Measures: Electrification, CCS, fuel switching		**Potential Examples** • Major decarbonization investments in the upstream production, refining, and distribution of oil and gas

Whole-of-activity

Through this pathway, whole-of-activities (for example, the operation of a cement or steel plant) would be assessed against activity-specific technical screening criteria, which correspond to a net zero emissions pathway and are designed to bring the activity's emissions in line with the **green** category within a defined timeframe (i.e., by 2050).[27] Under this pathway, the entire activity could be designated as "taxonomy-aligned".[28] This category may include either new or existing assets that meet the guardrails below.

27. Whole-of-activity criteria set emissions benchmarks and/or other requirements for the unit of economic production to meet in order to be eligible under the taxonomy (for example kg CO_2 equivalent per tonne of steel produced).
28. When the whole economic activity qualifies as taxonomy-aligned, the transition category may apply for any capital expenditures, operational expenditures, and/or revenue associated with that activity.

To be eligible for the **whole-of-activity** pathway, activities must meet the following guardrails:[29]

1. have no technically feasible zero to near-zero emissions substitutes available today;
2. have Scope 1 emissions that align with pathways to net zero by 2050;[30] and
3. avoid locking the asset, facility, or project being financed into dead-end pathways.

By requiring whole-of-activities to demonstrate alignment of their emissions with pathways to net zero by 2050, the Canadian taxonomy sets a high level of ambition for its **transition** label. Under other taxonomies that include a **transition** label, transition-aligned activities are not required to be on a net zero-aligned pathway in the short- to medium-term (ASEAN 2025; ASFI 2025; MAS 2023). However, where transition activities are not required to be on net zero-aligned pathways, there is a greater risk of carbon lock-in and asset stranding. The Canadian taxonomy's approach minimizes this risk by discouraging emissions-intensive activities from making investments in the short-term that will preclude them from aligning with medium- to long-term emissions benchmarks, which enhances both the usability and credibility of the Canadian taxonomy's **transition** label.[31]

Transition measures

In instances where the whole activity does not meet the taxonomy's transition criteria, assets, facilities, and projects can still claim taxonomy alignment for specific investments into a list of taxonomy-approved transition measures (See Figure 3). These may include technologies, practices, processes, materials, and/or services applied to a project, asset, or facility to materially reduce an economic activity's emissions (ASFI 2025).[32] Transition measures enable activities that are ineligible for the whole-of-activities category to reduce emissions, with specific guardrails.

Allowing transition measures to qualify under the transition label helps to create additional financing opportunities for activities that do not currently meet the requirements for the whole-of-activity pathway. As a result, this approach can enable meaningful opportunities for emissions reductions that could otherwise go unrecognized.

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29. Once screened into the taxonomy, activities must then be assessed against the activity-specific technical screening criteria to determine whether they qualify for receiving the transition label.
30. The approach to Scope 2 and 3 emissions is outlined in Section 4.5. Scope 1 emissions will be prioritized, but efforts will be made to incorporate life cycle considerations within the technical screening criteria where feasible.
31. The Australian taxonomy only allows existing buildings to qualify for the whole-of-criteria transition category as this is the only activity for which, in ASFI's opinion, not requiring net zero-alignment in the short-term does not risk carbon lock-in (ASFI 2025).
32. Transition measures could include electrification, fuel switching, carbon capture and storage, energy efficiency, and process improvements. For example, an existing copper refinery may not be able to qualify as a whole activity under the transition label but could make investments in transition measures, such as fuel switching from fossil to non-fossil alternatives. These investments could receive a transition label. Since it is not possible to link revenue generation to sub-facility- or sub-asset-level investments (e.g., energy efficiency measures applied at a steel plant), investments that qualify as taxonomy-aligned under this pathway can only claim transition alignment for capital expenditure and operational expenditure.

The transition measures pathway will be applicable to new assets where there are no technically feasible zero or near-zero emissions substitutes, or to existing assets.[33] In either case, the transition measure must meet both of the following guardrails:

1. materially reduce an activity's Scope 1 and/or 2 emissions (thresholds of materiality to be determined on an activity basis during the development of technical screening criteria); and
2. avoid locking into dead-end pathways that are not compatible with achieving net zero emissions by 2050.[34]

The transition measures pathway provides additional opportunities for taxonomy alignment under different potential scenarios:

- **For existing assets where zero to near-zero emissions solutions are commercially and readily available**: it may be financially undesirable to adopt the readily available zero to near-zero emissions solutions but specific transition measures could still create meaningful emissions reductions. For example, a commercial building could install heat pumps (i.e., the zero emissions solution) but doing so may require a structural overhaul, which may not be practical to finance over the building's remaining useful lifetime. In such an example, transition measures like energy efficiency improvements for the building could still be adopted to maximize emissions reductions before the aging asset is retired.
- **For activities where technically feasible zero to near-zero emissions solutions are not yet available**: both new and existing assets may not be able to access the technologies required to meet the net-zero-by-2050 pathway required to align with the whole-of-activity **transition** category but could still achieve significant emissions reductions by implementing specific transition measures or could help unlock new and emerging technologies (e.g., by financing research and development of a promising technology). For example, a new steel plant that cannot access the technologies required to meet the conditions of the whole-of-activity **transition** category could still reduce emissions significantly by applying individual transition measures such as increasing scrap steel recycling rates, improving energy efficiency, or procuring a low-carbon supply of electricity.

33. Examples of new activities without a zero to near-zero emissions substitute include an open-pit mine or a livestock farm; an example of existing infrastructure would be a steel plant built in 2015 that does not have a pathway for reaching net zero emissions.
34. This guardrail for transition measures helps to ensure that any investments made into transition measures today would not prevent the asset or facility that is being invested in from being able to meet mid-century net zero emissions benchmarks.

3.4 Further research will be undertaken to determine whether to include the abatement measures category in the taxonomy, focused on feasibility and consistency with the taxonomy's ambition and principles.

Developing a third category specifically for **abatement measures** is novel relative to international taxonomies. Historically, the production, refining, and distribution of oil and gas—as well as the development of other fuels and technologies that have readily available low-carbon substitutes today—have been excluded from taxonomy frameworks or considered ineligible (with very specific exceptions).

The exclusion of these activities in international taxonomies is grounded in clear climate science—the production and consumption of fossil fuels must decrease significantly and rapidly if the world is to stay within the goals of the Paris Agreement.

For example, in Paris-aligned pathways, global demand for upstream oil and gas production is expected to shrink, with oil demand peaking faster than gas demand in most representative scenarios (IPCC 2022a).[35] This demand decline is implicit within Paris-aligned pathways since mitigating the emissions that occur at the point of oil and gas combustion necessarily requires shifting away from fossil fuel-based end-use technologies towards non-emitting alternatives on a global scale (e.g., shifting from internal combustion engines to electric vehicles).

At the same time, activities that experience demand decline within Paris-aligned pathways can have substantial operational and upstream emissions. Oil and gas production and refining activities, for example, constitute nearly one third of Canada's total emissions.[36] Investments that significantly reduce emissions from these activities in the short term can align with achieving mid-century climate targets—provided that new investments do not slow down or create barriers to zero to near-zero carbon solutions, or prevent demand for these activities from declining at a rate necessary to keep the world on a Paris-aligned pathway.

It is within this context that further research will be undertaken to determine whether to include an **abatement measures** category in the Canadian taxonomy.

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35. The most recent IPCC assessment report finds that limiting global warming to 1.5° C requires coal, oil, and gas consumption to decrease by 45 to 95 per cent by 2050 from 2019 levels (IPCC 2022b).
36. The 2026 National Inventory Report from Environment and Climate Change Canada (ECCC) estimates that in 2024, the oil and gas sector produced 208 megatonnes of CO_2 equivalents, which amounts to 30 per cent of Canada's total emissions for that year (ECCC 2026).

The aim of an **abatement measures** category would be to cover select, ring-fenced investments for activities that are emissions-intensive today but that can meaningfully reduce emissions in Canada's highest emitting sector, oil and gas, in the short and medium terms.[37] Done effectively—with robust criteria and guardrails—this category could support important climate objectives such as methane abatement, provide a more complete picture of which activities in Canada's economy are climate-aligned and which are not, and fill a gap in the global taxonomy landscape by defining credible decarbonization investments. However, further research is needed to assess the scope of activities that could fit into this category and, importantly, whether technical screening criteria and guardrails can be developed to avoid the risks of carbon-lock in, greenwashing, and stranded assets.

If this category is included in the taxonomy, eligibility would be limited to abatement measures, which would limit investments to a list of pre-approved technologies, processes, practices, materials, and/or services that deliver meaningful emissions reductions and that comply with the guardrails for this category. This would ensure that taxonomy-aligned investments cannot go toward the general activity itself (e.g., oil production and/or to activities that will increase Scope 3 emissions) but, rather, be a ring-fenced investment to decarbonize the activity (e.g., methane abatement).

Importantly, the activities that would fall within the potential **abatement measures** category will change over time, as pathways for global net zero become clearer. For example, while many pathways for industrial end-use sectors (e.g., cement, steel) suggest that emissions-intensive and/or fossil fuel-based end-use technologies will continue to play a role if paired with CCS, this could change if other zero to near-zero technologies emerge that can substitute for existing production methods. If this scenario were to materialize, then the manufacturing of fossil fuel-based industrial end-use technologies would experience demand decline (demand decline for fossil fuel production and refining activities would also intensify).

An **abatement measures** category would require robust and science-based guardrails to ensure that investments focus squarely on reducing emissions in the short to medium term and do not increase the risk of carbon lock-in or asset stranding. While further research will be undertaken to determine the feasibility of appropriate guardrails, this category would, as a baseline, exclude activities associated with new oil and gas extraction and expansion projects that increase production or lengthen asset lifespan.[38] It would also require, as a baseline, significant reduction in Scope 1 emissions (parallel with the requirements for the **green** and **transition** categories) that are consistent with net zero pathways.[39] Additional research will be undertaken to determine what types of other guardrails are necessary, and whether they will effectively align this category with the taxonomy's ambition and principles (see Box 8).

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37. Ring-fencing means funds may only be spent on specific, eligible projects. Generally, entities finance projects through general corporate purpose financing, where funds are not designated for specific activities, or through use-of-proceeds based financing, where funds are earmarked to specific eligible activities. Use-of-proceeds instruments are ring-fenced as they involve allocating funds exclusively to eligible activities.
38. Previous work by SFAC characterizes new oil and gas extraction projects as those that involve the exploration and development of oil fields currently not producing or not already in development, encompassing those exploration and development projects that, as of a prescribed date, have not received a final investment decision or government licence (or tenure), and where limited capital expenditures have been allocated (SFAC 2022; Arnold 2024).
39. "Significant reduction" will be further defined at the activity-level if or when technical screening criteria are developed for the abatement measures category.

Box 8. Potential guardrails for an abatement measures category

In addition to the baseline guardrail of excluding new oil and gas extraction and expansion projects, there are a range of other guardrails that could be built within the taxonomy's categorization framework. Below are potential guardrails for consideration in the research process that have the potential to be usable and credible for an **abatement measures** category. These guardrails draw on other relevant frameworks (ICMA 2025; Arnold 2024; Methane Finance Working Group 2025) as well as suggestions from the public comment period. This is not a complete or exhaustive list.

Possible guardrails could include:

- limiting the set of activity-specific approved abatement measures to those that do not extend the lifetime of existing assets;
- requiring a significant reduction of Scope 2 and upstream Scope 3 emissions (to consider both intensity and absolute reductions);[40]
- requiring the decommissioning/sunsetting of assets within a certain timeframe consistent with credible scenarios;
- requiring exclusion of enhanced oil recovery from carbon capture and storage activities;
- requiring asset owners to implement accompanying investments in low-carbon alternatives;
- requiring issuers to implement entity-level transition plans;[41]
- requiring clear, permanent separation of activities from **green** and **transition** categories, with inability to convert investments into transition or green status;
- independent verification of emissions reductions reporting to demonstrate alignment with guardrails, ongoing monitoring; and
- periodic review of the category and guardrails.

Given that the **abatement measures** category is novel and that the stakes are high for ensuring its scientific credibility, Business Future Pathways will undertake a dedicated research and engagement process to determine whether to include the **abatement measures** category in the Canadian taxonomy. This research will be focused on feasibility of the category and consistency with the taxonomy's ambition and principles, and identification of appropriate guardrails for this category. This work will begin in 2027 (see Section 5 for more details on the schedule of work for the first phase of taxonomy development).

40. See footnote 39 above.
41. An example of how this type of guardrail has been applied in other taxonomies, the Singapore-Asia Taxonomy requires emissions-intensive industrial activities to have 1.5° C-aligned transition plans in place in order to be eligible for categorization within its "amber" category (equivalent to the Canadian taxonomy's transition category) (MAS 2023).

4.0 Setting the taxonomy's technical screening criteria

This section:

- describes the types of technical screening criteria that will be used in the Canadian taxonomy:
  - Criteria will predominantly use quantifiable metrics that prescribe, for example, performance relevant to a climate target, minimum emission reductions, best-in-class performance, or relative improvements.
  - Forward-looking technical screening criteria will account for evolving science and technology assumptions.
  - "Sunset" dates will pre-determine when an activity would no longer be eligible while "sunrise" dates state when new standards for eligibility would be introduced.
  - Criteria will be regularly reviewed to ensure smooth paths for the introduction of updated criteria.
  - Criteria will focus on emissions that are most directly under an operator's control (Scope 1) while also seeking to address the most material sources of emissions that fall outside of direct control (Scopes 2 and 3).
- describes the set of methods that will be deployed to develop these criteria, including energy system modeling, literature reviews, jurisdictional and policy analysis, and engagement.

The next phase of taxonomy development will operationalize the **green** and **transition** categories with detailed technical screening criteria for specific Canadian sectors (see Section 5). The development of these criteria will clarify which economic activities are eligible for which taxonomy categories.

Since each economic activity will have a distinct pathway to align with net zero, the technical screening criteria will be specific to the nuances of each activity while also reflecting the foundational elements laid out in this report: the principles, objectives, and ambition. Each economic activity requires a distinct suite of technologies and measures to be deployed on timelines that account for activity-specific circumstances, such as the costs and availability of low-carbon solutions and retirement timelines for existing stock. In some instances, these pathways are well established and consensus exists around the types of technologies and measures that will need to be adopted. Some economic activities, on the other hand, still lack clear pathways for aligning with net zero goals (Kaplan et al. 2025).

Taxonomies around the world use different approaches to developing technical screening criteria. A range of these approaches will be relevant for informing the development of the Canadian taxonomy. Technical screening criteria include quantitative thresholds or qualitative requirements that prescribe a process or practice for an activity to follow, and can also include time-bound requirements for how long certain technologies or processes are eligible. Activities are assessed against these criteria to determine their taxonomy alignment.[42]

In developing these criteria, there is a tension between scientific robustness and practical usability. Criteria will need to be sufficiently rigorous and quantitative to be credible and minimize greenwashing risk while remaining accessible and operable for a broad range of market participants. This is particularly important in the Canadian context, where data availability and reporting capacity vary significantly across sectors and entity sizes. Criteria that are technically sound but operationally burdensome risk limiting taxonomy uptake, particularly among small and medium-sized enterprises (SMEs). The design of technical screening criteria will therefore seek to balance ambition with usability so that the Canadian taxonomy can drive meaningful emissions reductions while achieving broad market adoption.

This section describes the types of technical screening criteria that will be used in the Canadian taxonomy and the set of methods that will be deployed to develop these criteria. The technical screening criteria for any given sector will pull from the menu described below (see Section 5).

4.1 The criteria will primarily use quantitative metrics that prioritize emissions performance.

The Canadian taxonomy will use quantitative technical screening criteria wherever possible as this will provide clear thresholds for determining an activity's taxonomy alignment and minimize risks of greenwashing. A quantitative approach also ensures that the taxonomy assesses alignment based on the ultimate performance of an activity (e.g., its total emissions reductions), which allows less emphasis on how it gets there or what specific technologies it uses. This supports the recognition of equivalent performance and a focus on outcomes rather than mandating certain technologies.

Wherever possible, quantitative criteria that are already familiar to market actors, whether through established market practice or existing legislation, will be used. Relevant reference points include federal and provincial regulatory frameworks as well as criteria and reporting standards widely used in sustainable finance markets. Aligning with familiar metrics reduces implementation burden, supports interoperability and comparability with existing sustainability disclosures, and promotes broad market adoption. This aligns with the approach of the EU Taxonomy (EU 2021c).

42. In order to be deemed taxonomy-aligned, activities must also meet Do No Significant Harm (DNSH) and Minimum Social Safeguards (MSS) criteria. See Section 2.5 for more details.

Possible types of quantitative metrics that the Canadian taxonomy may deploy include the following (informed by Canfora et al. 2021):[43]

- **Performance-based emissions thresholds**: These types of criteria set emissions-intensity thresholds for an activity based on activity-specific decarbonization pathways.
- **Impact-based:** These types of criteria set minimum requirements for the reduction of greenhouse gases that an activity must achieve in relation to a baseline.
- **Best-in-class performance**: These types of criteria require an activity to meet an emissions-intensity threshold that aligns with best-in-class emissions performance (e.g., within the top 10 per cent of the market).
- **Relative improvement**: These types of criteria require an activity to achieve a certain percentage of improvement in emissions over time.

The above metrics are primarily emissions intensity-based rather than focused on absolute emissions reductions metrics. While intensity metrics have limitations, since total emissions can still rise if output increases, they enable consistent comparisons across activities regardless of the size of the entity. As a result, intensity metrics are better suited to a taxonomy that classifies the climate performance of activities at a granular level, unlike absolute metrics, which are more appropriate for entity-level assessments.

Some activities will not require the development of quantitative technical screening criteria, since it can be assumed that, by the nature of the activity, it aligns with emissions thresholds (e.g., green activities that are zero to near-zero emissions such as renewable electricity generation). Criteria that deem activities as automatically eligible are referred to as nature-of-the-activity criteria (Canfora et al. 2021). Importantly, however, the taxonomy may need to introduce more stringent criteria for these types of activities in the future as activity-specific near-zero emissions thresholds tighten over time.

For activities where it is not practical to develop quantitative metrics or where it would be useful or necessary to support adoption, the Canadian taxonomy could draw on the following types of qualitative metrics (informed by Canfora et al. 2021):

- **Principles-based**: These criteria prescribe a set of principles or practices that an activity must comply with in order to align with climate objectives (e.g., a code of conduct or a certification scheme).
- **Process-based**: These criteria prescribe a process that an activity must follow in order to align with climate objectives (e.g., a process for monitoring an activity for methane leakage).

43. Further detail on performance-based metrics will be included in technical screening criteria, including choice of baselines such as asset-specific baselines, sectoral averages, or other reference points.

Box 9. Examples of quantitative and qualitative technical screening criteria

Examples of quantitative technical screening criteria

Best-in-class performance

- European taxonomy: Manufacture of cement
  - Greenhouse gas emissions intensity of cement production must fall under 0.469 tCO_2e per tonne of cement or alternative binder manufactured, the average GHG intensity of the 10 per cent most efficient performers within the industry (EU 2021b).

Impact-based

- Climate Bonds taxonomy: Manufacture of bio-energy
  - Bio-energy products must achieve an 80 per cent reduction in greenhouse gas emissions compared to a fossil fuel comparator (CBI 2021).

Performance in relation to the greenhouse gas target

- Singapore-Asia taxonomy: Manufacture of aluminum
  - Based on the 1.5° C-aligned sectoral decarbonization pathway presented by the International Aluminium Institute, primary aluminum must meet the below declining GHG intensity thresholds (MAS 2023).

Specific GHG intensity thresholds per tonne of aluminum produced (tCO_2e per tonne of aluminum produced)

2030	2035	2040	2050
1.185	0.826	0.520	0.311

Examples of qualitative technical screening criteria

Practice-based

- ASEAN taxonomy: Construction of new buildings
  - New buildings must receive an advanced level of certification under a national green building certification scheme OR an applicable, internationally recognized green building certification scheme—e.g., Leadership in Energy and Environmental Design (LEED) (ASEAN 2025).

Process-based

- Australian taxonomy: Manufacturing of plastics in primary form through recycling
  - Plastic is manufactured by mechanical recycling of plastic waste.

4.2 The criteria will be forward-looking wherever possible.

Forward-looking criteria progressively increase in ambition as climate targets draw closer, typically in five-year intervals (CBI 2025a).[44] In this way, forward-looking approaches can help facilitate continued progress towards climate targets across both green and transition activities.

To ensure credibility, forward-looking criteria will be informed by science-based pathways (CBI 2025a). By providing forward-looking criteria, the Canadian taxonomy can help to deter investments that will not be able to align with credible net zero pathways. Additionally, by including forward-looking criteria, the Canadian taxonomy can help set expectations for the future and provide investors with the clarity needed to make long-term investment decisions (CBI 2025a).

Fanancial District, Vancouver, British Columbia (Unai/Adobe Stock)

4.3 The criteria will include sunset and/or sunrise dates where relevant.

Sunset dates will be used to indicate when less stringent criteria will be phased out and sunrise dates will be used to indicate when more stringent criteria will be introduced. These mechanisms help to increase taxonomy ambition over time as well as give taxonomy users visibility into the future. They will be used on a case-by-case basis (CBI 2025a). The use of sunset and sunrise dates will be particularly important for transition measures and the **abatement measures** category, where the timing of specific activities becomes increasingly important for determining taxonomy alignment.

44. Five-year intervals also align with the cycles used in major energy system modelling exercises, such as those of the International Energy Agency (IEA), providing a natural basis for updating criteria in line with evolving science and technology assumptions.

Box 10. Examples of forward-looking technical screening criteria

Greenhouse gas emissions intensity

- Singapore-Asia taxonomy: Electricity generation
  - Electricity generation must meet the declining thresholds specified below (MAS 2023).

Life cycle GHG intensity thresholds for electricity production (gCO_2e per kWh)

2023-2030	2031-2035	2036-2040	2041-2050
100	100	90	50

Sunset date

- Colombian taxonomy: Private transport services
  - Hybrid vehicle fleets will not be eligible for the taxonomy label after 2025 (CBI 2025a).

Sunrise date

- Australian taxonomy: Iron ore mining
  - After Jan. 1, 2030, entities "must also demonstrate (via offtake agreements or other means) that the ore is going to [direct iron reduction] or a more performant process to make low-emissions iron and/or steel" (ASFI 2025: 69).

4.4 The criteria will be revised as necessary during regular review periods.

In cases where it will not be possible to provide forward-looking criteria, it will be particularly important to review and update criteria on a regular basis. During each review period, criteria will increase in stringency to facilitate progress towards climate targets. Revision will also be necessary for forward-looking criteria when scientific or technological developments alter the pathways that inform these criteria (CBI 2025a).

Revising criteria during review periods, unlike using forward-looking criteria or sunset/sunrise dates, can create uncertainty for investors and, therefore, will be accompanied by measures that minimize these risks. This could include measures such as identifying activities that are unlikely to undergo review based on their strong/enduring alignment and including a clause that gives activities that were previously taxonomy-aligned a grace period for aligning with the updated criteria as well as guidelines for outstanding labelled green and/or transition financial instruments (ASEAN 2024; CBI 2025a; ASFI 2025). Review periods will also consider time required for review and approval by relevant groups to ensure an efficient process.

4.5 The criteria will primarily focus on Scope 1 emissions but address Scope 2 and 3 emissions where feasible and material.

Technical screening criteria will, as a general rule, address material emissions while focusing on emissions that are within the operators' control. In practice, this will result in technical screening criteria primarily focusing on Scope 1 emissions, since 1) project operators have more direct agency over Scope 1 emissions; 2) complete and consistent data on Scope 2 and 3 emissions is not yet always available; and 3) downstream Scope 3 emissions are already integrated in how activities are categorized in the taxonomy framework (see Figure 1).

Furthermore, by addressing the Scope 1 emissions of a comprehensive set of emissions-intensive activities in the Canadian economy, the taxonomy will help facilitate emissions reductions throughout the supply chain (for example, criteria designed to address Scope 1 emissions in the electricity sector will, by proxy, help to mitigate Scope 2 emissions for electricity end-use sectors).

Technical screening criteria will determine when Scopes 2 and 3 are material and feasible to address, informed by work in peer jurisdictions. To address material emissions, efforts will be made to incorporate life cycle considerations within the technical screening criteria where feasible (as recommended by EU 2021c). To determine the types of technical requirements that are feasible and to which activities they can feasibly apply, the Canadian taxonomy will start by referencing credible taxonomies in peer jurisdictions like the European Union and Australia.

For example, Scope 2 emissions contribute a significant portion of emissions within the building sector but it may not be practical for building operators to reduce the emissions intensity of their electricity supply. Taxonomies in other jurisdictions have, however, formulated technical screening criteria around building energy efficiency requirements, which can address these Scope 2 emissions by proxy (ASFI 2025; EU 2021a). Exceptions may be needed where building operators rely on heat purchased from third parties, such as through district heating systems or for certain industrial applications, where emissions may be outside the operator's direct control.

In another example, downstream Scope 3 emissions make up the majority of emissions associated with iron ore mining but low-carbon solutions for addressing the source of these emissions (steel production) are at varying stages of technological readiness. To address this practical challenge, the Australian taxonomy delays the introduction of downstream emissions requirements for iron ore mining until 2030 (ASFI 2025).

Upstream Scope 3 emissions (those coming from an entity's suppliers) can also be significant in some cases but come with practical challenges. One best practice in these cases is to measure and apply lifecycle-based emissions intensity thresholds. Estimating the lifecycle emissions intensity associated with an activity is technically complex. In the case of biofuels, for example, which typically have high

upstream emissions, estimating lifecycle emissions intensity is challenging due to the various types of feedstock and the difficult assumptions around carbon sequestration (Dagher et al. 2025). In response to this challenge, many taxonomies include technical screening criteria that require biofuel end-users to source biofuel generated using feedstock that is widely acknowledged to be aligned with climate objectives (for example, biogas generated in waste management processes) (ASFI 2025; EU 2021a).

As the energy transition progresses, decarbonization continues across supply chains, and climate disclosure improves the quantity and quality of data on upstream and downstream emissions, technical screening criteria in the taxonomy will aim to increasingly address Scope 2 and 3 emissions, and to move towards setting quantitative emissions thresholds that capture an activity's full life cycle emissions.

4.6 The criteria will be informed by a range of robust methods.

Developing activity-specific screening criteria will be a complex and highly technical process, requiring robust research and extensive engagement. The Canadian taxonomy will deploy the following methods to develop robust technical screening criteria:

- *Energy system modelling* will be used to explore Canada-specific techno-economic pathways and emissions trajectories necessary for aligning activities with net zero by 2050 as well as identify dead-end pathways.
- *Literature reviews* will be used to explore international techno-economic pathways and emissions trajectories, determine any practices or processes that may be necessary for aligning activities with net zero, and/or identify dead-end pathways.
- *Jurisdictional analysis* will be used to identify approaches for developing activity-specific criteria that have been used in other jurisdictions and determine whether, where, and how these approaches will be adapted to the Canadian context.
- *Policy analysis* will be used to identify existing policy measures that are in place in Canada and/or other jurisdictions to support activities' decarbonization and determine how these measures will be considered and/or addressed in the development of the criteria.
- *Engagement* will be used to identify important considerations—relating to technical concerns or usability issues, for example—that will be addressed in the development of the criteria. This will involve engagement with Indigenous-led organizations and experts as well as stakeholders and Canadian and international experts.[45]

45. Indigenous engagement will not only inform technical screening criteria development, but also Indigenous rights criteria within the MSS framework.

5.0 Prioritizing sector guidance

This section:

- explains that, from 2026-2027, the development of the taxonomy will focus on the **green** and **transition** categories in concert with initial research on the **abatement measures** category;
- outlines the process used to prioritize sectors, which included assessing demand growth, decarbonization impact and potential, and investment potential;
- identifies six priority sectors for **green** and **transition** taxonomy criteria development: electricity, buildings, transportation, mining, manufacturing, and agriculture and forestry; and
- outlines the next steps in the criteria-development process, including windows for public comment and timelines for the final delivery of the taxonomy.

The Taxonomy and Transition Planning Council is mandated with developing final taxonomy guidance for the Canadian market in several phases. Technical screening criteria will be developed for the first three priority sectors by early 2027 and the second three priority sectors by the end of 2027.

Developing taxonomy guidance requires substantial technical research along with a robust engagement process to ensure the draft and final guidance are tested and evaluated. Phasing the work, however, requires making difficult choices about which sectors to cover first.

Concurrent with the development of the first three sectoral guidelines will be the drafting of DNSH and MSS criteria for each sector.

This section will: 1) provide a list of priority sectors based on an assessment of where taxonomy guidance has the greatest potential to support emissions reductions; and, 2) provide an overview of the timelines and process for developing technical screening criteria for priority sectors.

5.1 The Canadian taxonomy will prioritize guidance for sectors covering green and transition activities.

In the first phase of work (2026-2027), the taxonomy will focus on the **green** and **transition** categories. This approach will allow the taxonomy to first maximize its coverage of activities where it can encourage mobilizing capital to activities that help transform Canada's economy and position it for long-term economic growth in a net zero world.[46] It also allows Canada to quickly adopt and adapt best practices from its trading partners, ensuring baseline interoperability.

Alongside the delivery of guidance for these priority sectors over 2026-2027, research into the feasibility of the **abatement measures** category will be initiated in 2027. Given abatement measures are novel to sustainable finance taxonomies and pose a high risk of carbon lock-in, rigorous research and engagement will be required to determine whether this category should be included in the Canadian taxonomy. Efforts will focus on identifying the scope of activities that may qualify for this category and whether appropriate guardrails can be developed to avoid the risk of carbon lock in and support the principles of the Canadian taxonomy.

Identifying which sectors to prioritize within the **green** and **transition** categories involved a number of discrete steps to support this approach to prioritization, outlined in Box 11.

High-speed electric passenger train (Tai/Adobe Stock)

46. It is important to note that we are proposing that activities be evaluated against specific requirements to be eligible for green or transition categories, but not be required to meet general requirements of target setting, transition planning, and disclosure. We explore the reasoning for this approach in more detail in Section 2.4.

Box 11. Approach and rationale for sector prioritization

Step 1: Determine sector categories

- We used the list of sub-sectors laid out in Environment and Climate Change Canada's National Inventory to define the classification and disaggregation of economic sectors within the Canadian economy.

Step 2: Filter sectors based on directionality of global demand in net zero scenarios

- We started by developing a list of priority sectors by identifying those that have low demand-side transition risk as they are likely to experience stable or growing demand in IEA's World Energy Outlook Net Zero 2050 scenario and/or in other global net zero scenarios. This approach is consistent with our decision framework for **green** and **transition** investments in Section 3.
- The rationale behind this step in the prioritization framework is that the taxonomy can be most impactful in sectors that will continue to experience stable or growing demand. In these sectors, decarbonization will be driven by new investments in low-carbon technologies or industry practices (such as energy efficiency) that can make a substantial contribution to mitigating emissions.[47]
    - Specific abatement measures can drive material emissions reductions in demand-decline sectors in the short to medium term (e.g., targeted retrofits for existing infrastructure with long remaining lifetimes) but these measures will make up a smaller share of reductions in the long term, which will be driven by declining global demand. Furthermore, investments intended to actively decarbonize these sectors have a high risk of leading to carbon lock-in, in effect preventing demand from declining at a rate necessary to keep the world on a Paris-aligned pathway.

Step 3: Assess remaining sectors against a set of four criteria

- For the sectors that will experience stable or growing demand in net zero pathways, we prioritized based on the following:[48]
    - *contribution to national greenhouse gas emissions:* prioritized based on sectors with high emissions;
    - *decarbonization potential:* prioritized based on sectors that have viable decarbonization pathways, with preference for those that can decarbonize in the short- to medium-term;
    - *potential to enable decarbonization in other sectors:* prioritized based on sectors that enable significant mitigation across other sectors; and
    - *investment potential:* prioritized based on a 2023 survey by SFAC on taxonomy investment potential and augmented by a March 2026 poll of BFP's Financial Sector Advisory Group members.

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47. In its analysis of an ambitious global climate pathway, the Canada Energy Regulator (2023) finds that most of the emissions reductions to the natural gas sector, for example, occur as a result of declining demand rather than abatement measures in the sector. The latest CER report (2026) shows significant changes in global demand that suggest oil and gas production can continue to increase while keeping within a 2° C temperature target, which is misaligned with the headline statement from the IPCC: All pathways that limit warming to 2° C (>67 per cent) or lower show substantial reductions in fossil fuel consumption and a near elimination of the use of coal without CCS (IPCC 2022a).
48. We used various resources to inform the scoring of sectors against these indicators, including ECCC's National Inventory Report, IEA's World Energy Outlook, and Smart Prosperity Institute's survey of Canadian investors (SPI 2023).

Based on the approach outlined in Box 11, the following six sectors will be prioritized for developing guidance over the first two years of the taxonomy:

1. Electricity (e.g., power generation, transmission and distribution);
2. Buildings (e.g., construction, renovation and upgrades, data centres, efficiency measures);
3. Transportation (e.g., light-duty and heavy-duty road transport, rail, aviation, marine);
4. Mining (e.g., critical minerals mining);
5. Manufacturing (e.g., aluminum, cement, chemicals, fuels); and
6. Agriculture and forestry (e.g., crop and animal production, afforestation, restoration, forestry management, conservation).[49]

Subsectoral coverage within the selected priority sectors will first be informed by the set of subsectors/activities included within peer jurisdictions, such as Australia and the European Union. Additional subsectors/activities that are not covered within existing taxonomies, and for which Canada is well positioned to develop criteria, will then be considered for inclusion.

Electrician checking solar plant string inverters (Only_kim/Adobe Stock)

49. Natural gas extraction would be addressed under the potential abatement measures category. However, natural gas use will be considered where relevant in prioritized sectors, such as electricity, manufacturing, and transportation sector guidance.

5.2 Technical screening criteria will be developed for six priority sectors over the next two years.

The technical screening criteria for the first three priority sectors (electricity, buildings, and transportation), including DNSH and MSS criteria, will be finalized in early 2027. Guidelines for the next three priority sectors (mining, manufacturing, and agriculture and forestry) will be finalized by the end of 2027.

Developing technical screening criteria and DNSH/MSS criteria will involve engagement with and input from Business Future Pathways' Financial Sector, Technical, and International advisory groups, as well as sector-specific technical working groups composed of technical experts and industry representatives, including those with Indigenous lived experience and perspectives.

Concurrent with the development of the first three sectoral guidelines will be the drafting of DNSH and entity-level MSS criteria.

The council will approve options and recommendations for public comment.

2026

Q4

- Final Methodology Report
- Sectoral Guidelines for Public Comment (electricity, buildings, transportation)
- DNSH and MSS Criteria for Public Comment

2027

Q1

- Final Sectoral Guidelines (electricity, buildings, transportation)
- Final DNSH and MSS Criteria

Q3

- Sectoral Guidelines for Public Comment (manufacturing, mining, forestry/agriculture)

Q4

- Final Sectoral Guidelines (manufacturing, mining, forestry/agriculture)

Glossary

Activity	A unit of economic production enabled by a project, asset, or facility; for example, electricity generation from a wind turbine or steel production at a steel plant.
Carbon lock-in	The risk that new investments prevent or delay the development or deployment of lower-carbon alternatives in the future, making it harder to reduce emissions over time; for example, financing new emissions-intensive infrastructure when a low-carbon substitute can already be cost-effectively deployed, or investing in technological pathways that will ultimately be unable to achieve the emissions reductions needed to align with net zero by 2050 (see dead-end pathways definition).
Climate solution	A zero to near-zero emissions activity or product that directly contributes to the low-carbon transition.
Dead-end pathways	Technological pathways that, as a result of technoeconomic or resource constraints, will ultimately be unable to drive the scale of emissions reductions necessary to enable an activity to align with net zero by 2050. Investments in these pathways represent one potential source of carbon lock-in; for example, investments in technologies or processes that are incompatible with achieving mid-century net zero benchmarks even with further investment.
Demand-side risk	The extent to which global demand for a product is likely to decline in Paris-aligned pathways. Projects that have significant downstream (Scope 3) emissions face high demand-side risk, particularly when they have long lifespans. Projects that must be immediately phased out to align with Paris targets also face high demand-side risk.
Interoperable	The degree to which the Canadian taxonomy is designed to align with and function alongside the taxonomies of other jurisdictions to facilitate cross-border capital flows and the comparability of climate-aligned investments internationally; achieved through measures such as harmonizing key concepts and terminology, using quantitative criteria where possible, and considering existing approaches developed in peer jurisdictions such as the European Union, Australia, and ASEAN member states.
Low-carbon substitute	A process or technology that has zero to near-zero carbon emissions and can deliver the same economic output as an emissions-intensive process or technology; for example, a passenger electric vehicle can fully substitute for an emissions-intensive internal combustion engine since it enables the same economic output: passenger transportation.

Materiality	The significance of a project's Scope 1, 2, and 3 greenhouse gas emissions relative to representative Paris-aligned pathways, used to determine whether a project is labelled as green, transition, abatement, or ineligible under the taxonomy; specific thresholds of materiality are to be determined on an activity basis.
Net zero	The state in which greenhouse gas (GHG) emissions from economic activities are reduced to the lowest possible level and any residual emissions are balanced by equivalent removals, resulting in no net accumulation of GHGs in the atmosphere. Canada's net zero target is to achieve this outcome by no later than 2050, consistent with the Paris Agreement goals of limiting global temperature increases to well below 2° C and pursuing efforts toward 1.5° C.
Rights holder	An individual, group, community, or People whose human, collective, customary, treaty, or constitutionally recognized rights may be affected by a project, distinguished from a stakeholder by the inherent and legally protected nature of those rights. Indigenous Peoples in Canada are recognized as rights holders who hold rights to self-determination and to Free, Prior, and Informed Consent (FPIC) over actions affecting their lands, territories, waters, resources, and ways of life, as affirmed by Section 35 of the Constitution Act, numerous Supreme Court of Canada decisions, the United Nations Declaration on the Rights of Indigenous Peoples Act and applicable treaty and customary law. Rights holders are a distinct group from general stakeholders.
Scope 1 emissions	Direct greenhouse gas emissions from sources owned or controlled by a project or activity, including on-site fuel combustion, process emissions, owned or leased vehicles, and fugitive releases.
Scope 2 emissions	Indirect greenhouse gas emissions arising from the generation of purchased or acquired electricity, steam, heating, and cooling consumed by a project or activity.
Scope 3 emissions	Indirect greenhouse gas emissions, other than Scope 2, occurring in the upstream and downstream value chain of a project or activity—including purchased goods and services, transportation and distribution, use of sold products, and end-of-life treatment.

Stranded assets	Investments that lose economic value before the end of their anticipated useful life due to technological, market, regulatory, policy or other transformational changes; for example, fossil fuel infrastructure that loses value as demand declines or lower-carbon alternatives become economically viable.
Supply-side risk	The extent to which a project's Scope 1 and 2 emissions increase its exposure to higher carbon costs in Paris-aligned pathways. Supply-side transition risk can materialize for entities when their Scope 1 (e.g., from onsite fuel combustion) and/or Scope 2 emissions (e.g., from purchased electricity) are exposed to the rising costs of carbon associated with the global energy transition and carbon pricing policies. This can increase production costs as well as reduce an entity's competitiveness with industry counterparts with lower Scope 1 and/or 2 emissions.
Transition activities	Emissions-intensive economic activities that lack technically feasible low-carbon substitutes today but are expected to experience stable or growing demand in net zero-aligned pathways, and have the potential for deep decarbonization on a timeline consistent with net zero by 2050; for example, steel production or copper refining, which remain essential to a net zero economy but currently have no commercially viable zero-emissions alternative.
Transition measures	Investments in technologies, practices, processes, materials, or services applied to a project, asset, or facility to materially reduce an economic activity's greenhouse gas emissions, in instances where the activity as a whole does not meet taxonomy criteria; for example, fuel switching from fossil to non-fossil energy sources at a copper refinery or energy efficiency improvements at a steel plant.

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