Written Submission for the Pre-Budget Consultations in Advance of the 2026 Federal Budget

By: Institute for Sustainable Finance, Smith School of Business, Queen's University (isfcanada.org)

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Summary of recommendations:

1. That the government endorse the forthcoming Canadian sustainable finance taxonomy and develop the accompanying sustainable bond framework.
2. That the government issue Canada's first sovereign transition bond.
3. That the government stablish a centralized, publicly accessible national sustainable bond database.
4. That the government support capacity-building for smaller sustainable bond issuers.
5. That the government promote effective interprovincial carbon credit trading, including facilitating a B.C.-Alberta pilot.
6. That the government promote more consistent and timely compliance carbon market data.
7. That the government amend the *Canada Business Corporations Act* to mandate climate related disclosures for large, private, federally incorporated companies.
8. That the government work with the provinces to implement mandatory disclosures for public firms through Canadian Securities Administrators.

Scaling the sustainable bond market and issuing transition bonds

Introduction

Total issuance of sustainable bonds in Canada reached a record US$25.08 billion in 2024, up 68.5% year over year, driven by repeat issuers and continued investor appetite for sustainable assets[1]. Green bonds accounted for 82.5% of total issuance, followed by sustainability bonds (11.3%), sustainability-linked bonds (3.4%), and social bonds (2.7%). The Government of Canada's second sovereign green bond was the largest single issuance of the year, and its order book was oversubscribed roughly 1.8 times, signalling strong demand from both domestic and international investors. Despite this momentum, the market faces structural gaps that federal policy can help address. No transition bonds have been issued in Canada to date, while global transition bond issuance surpassed US$18.8 billion in 2024. Also, climate adaptation received just 1% of disclosed use-of-proceeds allocations. Smaller issuers, including municipalities, Indigenous organizations and SMEs remain largely outside the market.

Recommendation 1: Endorse the forthcoming Canadian sustainable finance taxonomy and develop the accompanying sustainable bond framework

Budget 2025 reaffirmed federal support for completing the Canadian taxonomy and signalled plans for a sustainable bond framework. The absence of a nationally endorsed taxonomy continues to create uncertainty around definitions, comparability and the credibility of climate claims. Financial institutions have responded by developing internal approaches or drawing on international frameworks, but inconsistency across these approaches limits scale and raises greenwashing risk. A taxonomy tailored to Canada's resource-based economy, and interoperable with frameworks in the EU and Australia, would give issuers and investors a common reference point for green and transition activities. The sustainable bond framework should be designed to expand alongside the taxonomy, with clear eligibility criteria for transition bond issuance from the outset. Federal endorsement is the signal that determines the market uptake after the taxonomy launch.

Recommendation 2: Issue Canada's first sovereign transition bond

Canada has not issued a transition bond. Global transition bond issuance grew by more than 500% in 2024 to a record US$18.8 billion, led by Japan's JPY1.6 trillion (US$11 billion)

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[1] Institute for Sustainable Finance: Canadian Sustainable Bond Market Report: Second Edition, 2025.

sovereign climate transition bond. That issuance catalyzed follow-on activity from corporate issuers across high-emitting sectors, including aviation, utilities and auto manufacturing. To date, at least two Canadian issuers have already updated their sustainable bond frameworks to include transition categories, indicating private sector readiness. A sovereign transition bond would establish a credible pricing benchmark, demonstrate federal commitment to transition finance in Canada's hard-to-abate sectors, and provide international investors with a clear entry point into Canada's low-carbon and energy-secure future.

Recommendation 3: Establish a national sustainable bond database
Canada currently lacks a centralized, publicly accessible database for sustainable bond information. Data is dispersed across proprietary platforms and individual issuer reports, with no single authoritative source for issuance volumes, use-of-proceeds allocations, impact outcomes or taxonomy alignment. This limits transparency for policymakers, raises due diligence costs for investors and reduces visibility for smaller issuers who lack the resources to maintain a presence on commercial platforms.

Comparable infrastructure exists in peer jurisdictions. Japan's Ministry of the Environment operates a Green Finance Portal that tracks domestic green and sustainability-linked bond issuance in a publicly accessible format. The European Central Bank publishes sustainable finance indicators as official statistics, covering issuances and holdings across the euro area, and integrates them into monetary policy and financial stability analysis. A Canadian equivalent, overseen by the federal government and developed in partnership with independent research institutions, would improve market transparency, enable sectoral benchmarking and support tracking of capital flows against national climate targets. ISF has built a comprehensive longitudinal dataset on Canada's sustainable bond market to date and is well-positioned to support the design and ongoing maintenance of such infrastructure.

Recommendation 4: Support capacity-building for smaller sustainable bond issuers
Growth in Canada's sustainable bond market has been concentrated among large, repeat issuers. Smaller municipalities, Indigenous organizations and SMEs face significant capacity and knowledge barriers that limit participation. Many cannot access bond markets at all due to limited credit ratings, high issuance costs and capital structures not suited to debt market financing. For these issuers, capacity-building must be paired with alternative financing options, including concessional loans and government grants. Federal funding for programs co-developed with Indigenous and local stakeholders and delivered in partnership with organizations such as ISF would help broaden market participation and build the foundation for a more inclusive sustainable finance ecosystem.

Strengthening Canada’s compliance carbon markets

Introduction

Canada’s carbon pricing architecture – spanning provincial industrial carbon pricing systems, a federal backstop Output-Based Pricing System (OBPS), an emerging Greenhouse Gas (GHG) offset credit system and a growing voluntary carbon market – is among the most architecturally complex carbon pricing systems in the world. This section focuses on strengthening Canada’s fragmented compliance carbon markets.

Carbon pricing instruments now cover approximately 28 per cent of global greenhouse gas emissions, with 80 instruments in operation[2] worldwide generating approximately USD $103 billion in public revenues in 2024[3]. Although Canada’s industrial carbon pricing systems have achieved substantial industrial coverage, the compliance units generated across provincial systems are non-fungible, and capital allocation decisions by industrial firms are shaped less by genuine abatement costs than by regulatory fragmentation. ISF has identified market fragmentation and limited transparency as material barriers to efficient price signals and long-term investment decisions in its submission to Environment and Climate Change Canada's consultation on Driving Effective Carbon Markets in Canada[4]. ISF recommends two complementary actions.

Recommendation 1: Promote effective interprovincial carbon credit trading, including facilitating a B.C.-Alberta pilot.

First, the federal government should work with provincial governments to introduce interprovincial credit trading — designed with appropriate safeguards — which would be a practical step toward a more cohesive Canadian market while preserving provincial flexibility. While this is a long-term goal, a major first step would be to establish a federal interoperability framework and launch a time-limited Alberta–British Columbia credit pilot, allowing trading between two similar provincial OBPS’s.

Recommendation 2: Promote consistent and timely compliance carbon market data.

Second, the government should promote more consistent and timely reporting — paired with confidentiality safeguards in smaller markets — which would strengthen price discovery, market confidence and oversight. ISF recommends working to standardize benchmark reporting requirements for participating facilities

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[2] Source: World Bank, Revenue | Carbon Pricing Dashboard

[3] Source: World Bank, GHG Emissions Coverage | Carbon Pricing Dashboard

[4] Source: Institute for Sustainable Finance, “Submission to Environment and Climate Change Canada,” 2026.

with consistent, timely publication of key market metrics (prices, volumes, supply/demand and compliance), and establishing a national portal for large-emitter trading system (LETS) daily market information.

Mandating climate-related disclosures

Introduction
Globally, investors increasingly treat climate risks as material, and regulators are moving toward standardized sustainability reporting frameworks, particularly in Europe and Asia. Within this broader shift, Canada has established the core building blocks of a modern disclosure regime, most notably the Canadian Sustainability Standards Board's (CSSB) internationally aligned disclosure standards, but these standards remain voluntary. At the same time, the Office of the Superintendent of Financial Institutions (OSFI) has implemented climate-related reporting requirements for Canadian financial institutions and Canada's Taxonomy and Transition Planning Council is working to create made-in-Canada sustainable investing guidelines which will allow markets to identify and agree on which investments will contribute to decarbonizing the economy.

Despite this progress, the Canadian sustainable finance framework is fragmented and fails to offer the kind of consistent, verifiable and comparable climate information that investors require. As well, at a time when Canada is prioritizing foreign investment and diversity in trade, Canada is increasingly out of step with key trading partners in Europe and Asia. The Canadian Securities Administrators' (CSA) market-wide initiative to mandate climate related disclosure was paused in April 2025, more than one year ago, due to competitiveness concerns and uncertainty around pollical and economic shifts. However, evidence is mounting that disclosure regulations are needed to enhance Canadian competitiveness and attract investment.

Keeping pace with global jurisdictions: An analysis by Finance Montreal shows that 14 of 15 of Canada's top non-U.S. trading partners have in place or will soon have globally aligned climate reporting regulations, representing $160-billion in Canadian exports. As well, a 2025 Morningstar survey showed that 40% of global asset owners are reducing or plan to reduce exposure to the U.S., creating an opportunity for Canada. And sub-national U.S. jurisdictions including California are proceeding with their own mandatory disclosure regulations. According to analysis by Climate Engagement Canada, U.S. companies are generally ahead of Canadian firms in their climate ambition.

Strengthening Canadian capital markets: Mandatory disclosures allow markets to better reprice firms, rewarding credible climate strategies and penalizing unmanaged risks.

Issuers of quality voluntary disclosures can see benefits including improved access to capital and higher levels of non-U.S. foreign investment. Research published in the *Journal of Accounting Research*[5] shows that jurisdictions that require sustainability disclosures see improved firm-level stock liquidity and lower risk of price crashes.

Policy considerations: While disclosure requirements are expected to be broadly positive, they are not without costs, and effects will be felt unevenly through the economy. Firms may have to dedicate significant resources to reporting, particularly those that are not currently reporting voluntarily. Evidence suggests these costs decline over time[6].

Recommendation 1: Amend the *Canada Business Corporations Act* to mandate climate related disclosures for large, private federally incorporated companies.
In its fall economic statement in 2024, the federal government announced it would amend the *Canada Business Corporations Act* to require sustainability disclosures by "large federally incorporated private companies." The federal government should proceed with this legislation and implement requirements to Canadian Sustainability Standards Board standards.

Recommendation 2: Work with the provinces to implement mandatory disclosures though Canadian Securities Administrators.
The federal government should work with Canadian Securities Administrators to resume its process to establish a rule requiring sustainability disclosures for publicly listed firms. This will require support from provincial securities regulators, but the federal government can take an important convening and consensus building role. A phased approach is recommended to avoid undue burdens on certain sectors or smaller firms: large issuers first, Scope 1 and Scope 2 before Scope 3, and delayed introduction of more complex scenario analysis until issuer capability improves. The federal government can also develop capacity building programs to improve firms' reporting and sustainability performance.

Institute for Sustainable Finance

ISF was launched in 2019 as a hub of expertise and collaboration for advancing sustainable finance in Canada. Housed at Smith School of Business, Queen's University,

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[5] Krueger, Philipp and Sautner, Zacharias and Tang, Dragon Yongjun and Zhong, Rui, The Effects of Mandatory ESG Disclosure Around the World (December 01, 2024). Journal of Accounting Research, Volume 62, Issue 5. Pp. 1795-1847, https://doi.org/10.1111/1475-679X.12548.
[6] Institute for Sustainable Finance Briefing Note: "Will mandatory sustainability disclosures strengthen Canada's capital markets?", 2026.

Institute for Sustainable Finance

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