BACKGROUNDER

Climate-related Transition Planning and Plans

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Smart Prosperity Institute

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List of Abbreviations

Abbreviation	Definition
AMF	Autorité des marchés financiers (Québec)
ATF	Anti-terrorist financing
BCBS	Basel Committee on Banking Supervision
CAPSA	Canadian Pension Supervisory Authorities
CBI	Climate Bonds Initiative
CCUS	Carbon capture, utilization and storage
CDIC	Canada Deposit Insurance Corporation
CDP	Carbon Disclosure Project
CEC	Climate Engagement Canada
CIRO	Canadian Investment Regulatory Organization
COP	Conference of the Parties (on climate change)
CSA	Canadian Securities Administrators
CSDDD	Corporate Sustainability Due Diligence Directive (EU)
CSDS	Canadian Sustainability Disclosure Standards
CSR	Corporate Social Responsibility
CSRD	Corporate Sustainability Reporting Directive (EU)
CSSB	Canadian Sustainability Standards Board
ESG	Environmental, social, and governance
EU	European Union
FCA	UK Financial Conduct Authority
FCAC	Financial Consumer Agency of Canada
FINTRAC	Financial Transactions and Reports Analysis Centre of Canada
FISC	Financial Institutions Supervisory Committee (Canada)
FSB	Financial Stability Board
GDP	Gross domestic product

GFANZ	Glasgow Financial Alliance for Net Zero
GHG	Greenhouse gases
GRI	Global Reporting Initiative
IFRS	International Financial Reporting Standards
IPCC	Intergovernmental Panel on Climate Change
ISSB	International Sustainability Standards Board
ITPN	International Transition Plan Network
NGFS	Network of Central Banks and Supervisors for Greening the Financial System
NZTP	Net-zero transition plan
OECD	Organisation for Economic Co-operation and Development
OSFI	Office of the Superintendent of Financial Institutions
PIPEDA	Personal Information Protection and Electronic Documents Act
SASB	Sustainability Accounting Standards Board
SBTi	Science Based Targets initiative
SEC	United States Securities and Exchange Commission
SFAC	Sustainable Finance Action Council
SME	Small and medium-sized enterprises
TCFD	Taskforce on Climate-related Financial Disclosures
TSX	Toronto Stock Exchange
UK	United Kingdom
UK TPT	UK Transition Plan Taskforce
UN	United Nations
UNDRIP	United Nations Declaration on the Rights of Indigenous Peoples
UNEP	United Nations Environment Programme
UNEP-FI	United Nations Environment Programme Finance Initiative

Executive summary

Businesses are operating in a period of heightened uncertainty marked by rapid technological change, shifting policy environments, evolving market expectations and intensifying physical climate impacts. These conditions create risks and opportunities for businesses. How businesses govern, plan and allocate capital under uncertainty is increasingly central to their resilience, competitiveness and long-term value creation.

Physical climate disruption is impacting operations, infrastructure and supply chains, while transition-related changes in policy, technology and markets are reshaping cost structures and competitive positioning. These forces interact with broad economic and geopolitical pressures, amplifying risk at the firm, sectoral and system level. As with past industrial shifts, such as the transition from film to digital photography, the risk to businesses lies in failing to adapt strategy and investment decisions as the operating environment changes.

A main challenge for businesses is moving beyond responding to climate change as an isolated issue, towards managing climate-related risks and opportunities as a core component of strategic decision-making under uncertainty. Transition planning has emerged as an important governance tool for businesses to navigate these conditions. It helps organizations assess their climate-related risks and test the resilience of their business models across plausible futures, and align governance, strategy and capital allocation accordingly.

Rather than serving solely as a disclosure exercise, transition planning can support more adaptive decision-making by linking long-term objectives with near- and medium-term operational and investment choices. For firms that engage in it meaningfully, transition planning can support operational efficiency, access to capital, regulatory preparedness and sustained competitiveness. For regulators and policymakers, credible plans improve the availability of forward-looking, decision-useful information to monitor systemic risk, guide policy design and support coordinated action.

This backgrounder provides an overview of the key aspects of transition planning to aid Canadian policymakers, regulators, investors and business leaders in adopting and implementing transition plans. It begins with the core concepts of climate-related risks, opportunities and materiality. It situates transition planning in the broader climate information architecture. It highlights the benefits of transition planning as a strategic exercise that strengthens internal governance and decision-making, while also producing public-facing plans that can improve market access, reduce capital costs and regulatory scrutiny, and support investor confidence.

Canada is unique among its G8 peers. Global approaches to transition planning must be tailored to domestic realities if Canadian businesses are to fully benefit. The second half of this backgrounder outlines emerging global convergence and analyzes the current Canadian landscape. It identifies key barriers to effective implementation—from data and guidance gaps to coordination challenges across regulators. It concludes by asking a key question for further research: *What constitutes a credible climate-related transition plan in the Canadian context?*

1. Introduction

The financial impacts of climate-related risks are reshaping global markets. Extreme weather events, supply-chain disruptions, and changing investor and legal expectations are creating a new business environment in which climate-readiness is a core strategic consideration.

As one of the fastest-warming countries in the world (Flato et al., 2019), climate change poses a material threat to Canadian businesses and the economy. The physical manifestations of climate change are significant. Insured catastrophic losses from severe weather reached $8 billion in 2024, a twelvefold increase relative to the $701-million average annual level observed in the first decade of the 2000s (Insurance Bureau of Canada, 2025).

A changing climate, alongside the societal shifts of a low-carbon transition, presents an evolving landscape for companies. The resulting financial effects on organizations and the subsequent risks for the broader economy and financial system are significantly shaped by organizations' ability to adapt and align with these evolving conditions. This reality encourages companies to anticipate and manage climate-related risks.

Climate-related transition planning is essential for accomplishing this. Climate-related transition plans operationalize climate goals into measurable business strategies, showing how a company's governance, capital allocation and operations would change under different decarbonization scenarios. Planning for, rather than reacting to, climate risks positions companies to identify opportunities for innovation and investment, thereby enhancing their competitiveness. Overall, transition plans allow organizations to:

- benefit from greater operational efficiencies,
- finance low-carbon projects and capital investments,
- avoid regulatory and market penalties, and
- maintain short-term resilience and long-term competitiveness.

Firms that lag in transition readiness may face increased regulatory scrutiny, declining investor confidence and trade barriers. Landmark legal opinions have linked climate-related risks and the fulfillment of a corporate directors' duty of care under the *Canada Business Corporations Act* (RSC, 1985, c. C-44) (Hansell LLP, 2020; Sarra, 2021) and the broader, mandated fiduciary duty to act in the best interests of not only corporations but also the long-term interests of relevant stakeholders (Sarra, 2018; Barker, Williams and Cooper 2021).

As of 2024, more than three-quarters of individual investors (77%) are interested in investing in companies or funds that consider positive environmental impact alongside financial returns, with over half (54%) indicating they plan to increase allocations to sustainable investments in the coming year (Morgan Stanley Institute for Sustainable Investing & Morgan Stanley Wealth Management, 2024). Among institutional investors, 78% of asset managers expect sustainable assets to increase over the next two years, and 90% identify client and external stakeholder demands as drivers of sustainable investing activity (Morgan Stanley Institute for Sustainable Investing, 2024).

Many Canadian organizations will also be subject to disclosure and transition-planning mandates in other jurisdictions. For example, an estimated 1,300 Canadian companies are subject to the European Union's (EU) Corporate Sustainability Reporting Directive (CSRD), while many others will need to provide CSRD-aligned information to EU-based corporate stakeholders (Delphi, 2024).[1]

Beyond individual businesses, climate risks hinder Canada's global competitiveness. The Canadian economy is resource- and emissions-intensive, as well as export-oriented, with significant employment, government revenue and exports tied to fossil fuels, mining and heavy industry. These vulnerabilities, characterized by high physical risk and high transition exposure globally (Grubert & Hastings-Simon, 2022), underscore the importance of robust transition planning to prevent systemic disruption of finance and the economy.

Without nationwide guidance, it is difficult for Canadian companies to develop and apply transition plans, leading to inconsistent, opaque plans that can be difficult for stakeholders, such as investors, to use. While related concepts, such as climate-risk management and climate-related financial disclosures, have more established roots, the practice of developing transition plans remains relatively new, even among advanced economies. As global norms for climate-related transition planning crystallize, there are challenges in adapting to emerging international standards due to the country's structural features, including its economic, institutional and governance landscape.

Absent a coherent transition planning regime comprising clear guidance, interoperable sustainability standards and appropriate supervisory oversight, Canadian firms may face market, financial and trade-related challenges. These challenges put Canada at risk of missing out on opportunities in clean innovation, climate resilience, economic competitiveness and a just transition.

1.1 A look ahead

This research backgrounder provides analysis to help Canadian policymakers, regulators, investors, and business leaders advance the adoption and implementation of transition plans. It clarifies key concepts, identifies implementation challenges and outlines priority areas for future research and policy development. This backgrounder reflects more than a year of work conducting a comprehensive review of academic and grey literature, international transition regulatory developments and emerging guidance documents. It is meant to set the

[1] Interinstitutional negotiations between the European Commission, European Parliament and European Council to implement changes to the EU's sustainability reporting (e.g., the CSRD) and due diligence (e.g., CSDDD) rules are ongoing. These changes are part of a broader simplification initiative in the EU that aims to reduce regulatory burden. While not yet final, it is generally expected that the upcoming changes to the CSRD and CSDDD will, among other things, result in a delayed timeline for mandatory reporting and a reduced scope of companies required to report (see the EU's FAQ here). Transition planning requirements are part of these negotiations, and a change in the scope of reporting companies would similarly reduce the number of companies required to engage in planning and publicly disclose their transition plans.

foundational analysis for future work on credible transition planning in Canada and is organized as follows:

- **Section 2** discusses foundational concepts pertinent to climate-related transition planning and plans. This includes climate-related risks and opportunities, the concept of materiality and its differing perspectives, and the positioning of transition planning within the broader climate information architecture.
- **Section 3** goes beyond the basics discussed in Section 2. It distinguishes between transition planning (the process) and transition plans (the output), the spectrum of transition planning approaches, the various use cases of transition plans and the importance of an integrated approach that—in addition to a traditional focus on climate change—also accounts for nature.
- **Section 4** outlines the benefits of transition plans, demonstrating why they are a source of strategic value for meeting climate-related goals. It outlines how the planning process strengthens internal decision-making by embedding climate considerations into governance, risk management and operational decisions for different entities. It also highlights how different users of transition plans, such as investors, regulators, policymakers and value-chain partners, benefit from improved transparency and decision usefulness. These features ultimately help stakeholders make their own assessments, manage risks, and coordinate action across firms, sectors and the broader economy.
- **Section 5** surveys the evolution from voluntary guidance to emerging global standards and regulatory requirements and situates Canada within this international landscape. It examines how adoption and implementation are shaped by Canada's federal governance structure, economic profile and institutional capacity.
- **Section 6** identifies the key barriers and implementation challenges that hinder the development of credible, comparable and decision-useful transition plans in Canada, grouping these challenges across methodological, policy and governance, data and analytics, and firm-level capacity dimensions.
- **Section 7** concludes by outlining priority policy and governance considerations and the future research needed to strengthen the credibility, coordination and effectiveness of transition planning across the Canadian economy.

A note to readers

This backgrounder was written for a range of readers who may not share a common base of knowledge. To make this document easier to navigate, guidance notes throughout summarize each section's content. Although briefly described below, readers unfamiliar with the other tools of the climate information architecture (particularly disclosures, taxonomies and scenario analysis) may wish to begin by reviewing our previous policy brief on Aligning Canada's Climate Information Architecture.

With this roadmap in mind, we turn first to the foundational concepts that underpin climate-related transition planning.

2. Climate-related transition planning: Core underlying concepts

This section provides a foundational overview of core concepts pertinent to climate-related transition planning. It begins with a discussion of climate-related risks and opportunities, distinguishing between external drivers of risk and the financial effects and risks they pose for organizations. It then discusses materiality concepts and their role in determining which of these effects warrant a strategic response and public disclosure. Following this, transition planning is situated within the broader climate information architecture to illustrate how it connects with and reinforces the other components.

2.1 Climate-related risks

Climate-related factors are increasingly recognized by central banks and financial supervisors, regulators and investors as material considerations for organizations.

While frameworks often refer broadly to 'climate-related risks,' a more precise understanding distinguishes between **climate-related drivers** (i.e., external conditions that may affect an organization) and the risks that may result, depending on an organization's exposure, vulnerability and strategic response (BCBS, 2021; Reisinger et al., 2020).

Climate-related drivers of risk are the "climate-related changes that impact economies" (BCBS, 2021, p.5). These drivers are external conditions that organizations cannot directly control. However, what organizations *can* manage is their exposure to the potential effects of these drivers and how they strategically respond. For example, a railway company may need to enhance or adjust its rail maintenance practices in response to heatwaves of increasing severity and length.

Climate-related risks include nature and biodiversity loss

This backgrounder uses the language of "climate-related risks" for transition planning. However, it is critical to recognize that nature and biodiversity loss are deeply interwoven with climate risks as drivers and amplifiers of financial exposure and, therefore, are included in the umbrella of climate-related risks.

Integrated transition planning that manages for climate- and nature-related risks and opportunities is discussed in depth in Section 3.4.

Climate-risk drivers operate through transmission channels to create climate-related risks for organizations (BCBS, 2021). For real-economy corporates, these drivers can result in business-level consequences, including the risk of operational disruptions, asset impairments, supply-chain disruptions, changes in competitive positioning and shifts in cost structures. For financial institutions, the business-level impacts experienced by their clients and counterparties translate into traditional financial risk categories (e.g., credit risk, market risk, liquidity risk) through their lending, investment and underwriting exposures (BCBS, 2021; FSB, 2025a).

Climate-related risks can be grouped into two categories: physical and transition (BCBS, 2021; NGFS, 2024a; TCFD, 2017).

- **Physical:** Weather- and climate-related changes result in physical risks to organizations. These changes can impact the economy at micro- (i.e., individual businesses and households) and macroeconomic levels and can be categorized as **acute** or **chronic**.

Acute drivers include extreme weather events (e.g., heatwaves, hurricanes, wildfires). In contrast, chronic drivers include long-term, gradual changes such as sea-level rise, higher average temperatures and altered precipitation patterns (NGFS, 2024a). The physical impacts of climate change can affect organizations directly (through damage to assets or operational disruptions) or indirectly through impacts on supply chains, markets and the broader economy (BCBS, 2021). Business-level impacts can compound across the financial system, amplifying systemic vulnerabilities.

- **Transition:** Structural shifts in policy, technology and economic activity associated with the global low-carbon transition create uncertainty for businesses. Notably, these shifts are not inherently adverse; policy developments such as carbon pricing or clean-energy incentives may create risks for some organizations while generating opportunities for others.

Whether these broader shifts result in risks or opportunities depends on how well organizations are strategically positioned to respond.

2.2 Climate-related opportunities

Key transition drivers include "changes in public-sector policies; innovation and changes in the affordability of existing technologies; or investor and consumer sentiment" (BCBS, 2021, p. 7).

- *Investor and consumer expectations* are shifting, which can affect an organization's cost of capital and overall access to financing.
- *Policy and regulatory developments* like carbon pricing, emissions standards and disclosure expectations are evolving across jurisdictions, albeit at different paces.
- *Technology costs* are shifting in ways that alter the relative economics of different production methods and energy sources.

Organizations that understand these dynamics and position themselves accordingly can capture tangible opportunities.

- **Resource efficiency.** Organizations can reduce operating costs by optimizing the efficiency with which they use materials, energy and other inputs.
- **Energy sources.** Transitioning to cleaner energy can lower costs and strengthen competitive positioning. For instance, according to the International Renewable Energy Agency, renewables continue to be the most cost-competitive option for new electricity generation, "with 91% of newly commissioned utility-scale capacity delivering power at a lower cost than the cheapest, newly installed fossil fuel-based alternative" (IRENA, 2025, p. 14).
- **Products and services.** Innovation in lower-carbon offerings creates new revenue streams and market differentiation. In 2023, Canada's clean technology industry contributed $40.6 billion to Canada's GDP and supported more than 224,000 jobs (ECCC, 2025).
- **Markets**. Strategic positioning can improve access to capital and unlock financial advantages. For instance, research analyzing ~2,100 Japanese listed companies over five years found that companies with higher carbon emissions face higher borrowing costs, while those that follow the guidelines of the Task Force on Climate-related Financial

Disclosures (TCFD) and openly share climate-related information benefit from lower overall capital costs (Wang et al., 2024). Organizations that act sooner are also better positioned to take advantage of time-limited incentives such as clean-technology tax credits and other public supports. For instance, in Canada, clean economy investment tax credits are being deployed to support green innovation and mobilize private-sector investment (Canada Revenue Agency, 2024).

Effective transition planning helps organizations understand their exposure to climate risk drivers, assess the business-level consequences that may result and develop strategies that position them well to mitigate those potential consequences and seize new opportunities. Transition planning, as the Financial Stability Board notes, represents a structured process for navigating these dynamics, enabling organizations "to identify and assess climate-related risk over longer time horizons" and anchor climate risk management into their broader strategic planning (FSB, 2025b, p. 14).

Once an organization understands these climate-related drivers and their potential financial effects, it must determine which specific impacts are significant enough to influence internal strategy and external reporting—a process guided by the materiality concept.

2.3 Materiality in public disclosures and internal planning

Materiality can be defined through policy or regulation and/or users' informational needs and is often grouped into two categories:

- A **financial materiality** perspective focuses on climate-related risks and opportunities that create financial risks and opportunities that "could reasonably be expected to affect an entity's prospects" (IFRS Sustainability, 2025, p. 7). The prospects of an entity refer to its "cash flows, its access to finance or cost of capital over the short, medium or long term" (IFRS Sustainability, 2025, p. 7). This 'outside-in' view is the primary lens for understanding the potential financial effects of risks and opportunities stemming from physical and transition risk drivers and is of principal interest to investors (ISSB, 2023a).
- An **impact materiality** perspective focuses on an organization's impact on the world. It assesses the impacts of an organization's activities on the environment and society. This 'inside-out' view is relevant to a range of stakeholders, including citizens, consumers, employees and a growing number of investors seeking to understand the broader effects of their portfolios (Global Sustainability Standards Board, 2023).

A systematic materiality assessment of climate-related risks and opportunities (and impacts, if a double-materiality perspective is adopted) is a crucial input to effective transition planning and internal decision-making. Determining materiality sets a threshold of strategic significance by helping identify risks and opportunities that are significant to an organization's business model and, subsequently, warrant a strategic response. This informs how organizations plan to decarbonize, set credible emissions reduction targets and prioritize investments that build resilience and reduce emissions.

For example, understanding exposure to shifting investor expectations can help companies reorient their business models and align capital expenditures with emerging domestic and

international climate policy. Integrating physical risk assessments into planning processes helps companies safeguard supply chains, protect assets and ensure continuity of operations under worsening climate conditions. Rigorous climate-related risk assessment is a foundational input into transition planning, ensuring strategies are responsive, science-aligned (i.e., consistent with the science of climate change) and financially resilient.

A materiality assessment provides the necessary focus for an organization's planning; however, this process does not occur in a vacuum but rather within a broader climate information architecture that provides the data and frameworks for necessary action.

2.4 The role of transition plans in the climate information architecture

The foundational structures that drive measurable, actionable outcomes for decarbonization create a comprehensive **climate information architecture** (Islam et al., 2025). A robust architecture mobilizes capital to fund and advance decarbonization. Aside from transition plans, the other building blocks of the climate information architecture are:

- **Climate-related financial disclosures**, which provide insight into how climate risks and opportunities are managed,
- **Climate scenario analysis**, the assessment of likely future scenarios to understand climate-related risks and opportunities,
- **Sustainable finance taxonomies**, which define what constitutes a "green" and "transition" activity; and
- **Data and analytics** are high-quality, reliable and comparable information that feed into other information tools and provide evidence to support decision-making.

ESG, CSR and Transition Plans

Although often grouped with broader ESG, CSR or other varieties of sustainability reporting, transition planning is distinct. Where ESG reports tend to catalogue past performance or general commitments, transition planning involves charting a time-bound path for how an organization's governance, strategy and capital allocation will evolve.

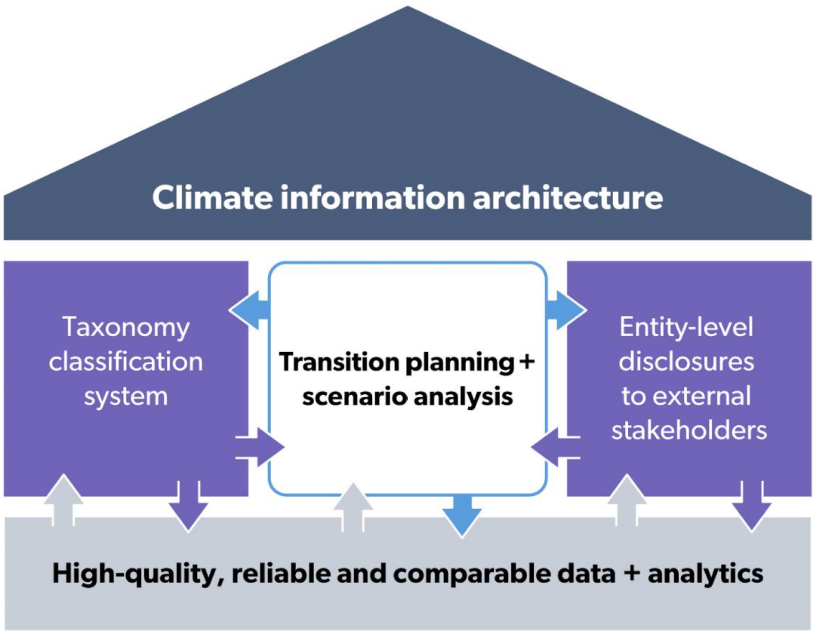
Transition planning interacts with and reinforces these building blocks, playing a critical connective role between high-level commitments and real outcomes. High-quality data and analytics inform the assumptions and targets embedded in transition plans, while taxonomies provide standardized classification systems that guide investment and operational choices. In turn, transition plans provide structure and clarity to the forward-looking strategy components of an entity's broader climate-related disclosures. Without credible transition plans, the climate information system risks fragmentation, losing the strategic coherence necessary to drive progress.

While scenario analysis and transition planning are forward-looking tools, the former is an exploratory exercise in which companies assess the strategy and risk-management implications of various climate futures (i.e., scenarios) (NGFS, 2025). The latter, as discussed above, is an internal process to develop a strategy to (a) achieve climate-related goals and/or (b) manage transition risks (NGFS, 2025). By undertaking scenario analysis initially and iteratively, a company can gain valuable insight into climate-related risks and opportunities that may

impact its operations. In turn, the transition planning process is informed by and builds upon these insights, leveraging scenario analysis to strengthen the resulting transition strategy.

Positioned at the heart of this architecture (see Figure 1 below), transition planning and plans operationalize climate goals into business strategies that are measurable, actionable and transparent. Transition plans link data inputs to disclosures, ensuring that reported climate actions are not isolated statements but components of a strategy. Transition planning turns the climate information architecture from a compliance exercise into a strategic tool for resilience, competitiveness and long-term value creation.

Figure 1: Transition planning and plans in the climate information architecture[1]



By framing transition planning and plans within Canada's climate information architecture, we highlight the need to advance credible transition planning that accounts for interactions among disclosures, taxonomies, scenario analysis and data analytics, ensuring coherence, consistency and efficiency across the system. This integrated view makes clear that transition plans cannot stand alone; they draw on shared metrics and definitions, reinforce other climate information tools and enable aligned mandates and reporting formats. In doing so, transition plans reduce duplication and compliance burdens, enhance transparency for investors and mobilize finance more effectively toward science-based decarbonization strategies.

3. Defining climate-related transition planning, plans and use cases

This section further clarifies the distinction between the iterative internal process of transition planning and its external output, the transition plan. It then explores the spectrum of risk- and strategy-focused approaches, their practical use cases for various stakeholders and the emerging need to integrate nature-related dependencies into a comprehensive transition strategy.

Despite growing attention and uptake, there remain varying interpretations of the concept and practice of climate-related transition planning and plans (see Appendix A for a sampling of definitions).

To start, it is important to distinguish *transition planning* (the process) from *transition plans* (the output). Blurring this distinction can lead to an overemphasis on producing a document, rather than on the underlying strategic work needed to manage climate-related risks and opportunities. **Transition planning** is an ongoing, internal process through which organizations assess risks, test assumptions, and integrate climate-related goals into governance, strategy, and investment decisions over time (NGFS, 2023). **Transition plans**, by contrast, are external-facing summaries that communicate the results of this work to stakeholders at a specific point in time (GFANZ, 2022a). While the transition plan serves as an external communication of a company's transition strategy, the substantive work of identifying risks and opportunities, setting targets and formulating the overall strategy occurs in the internal planning process.

Making this distinction matters for both firms and policymakers: it helps firms focus on building internal capability and improving decision-making, and it allows regulators, investors, and supervisors to better assess readiness, identify gaps, and design expectations that encourage meaningful progress rather than box-ticking compliance.

3.1 Transition planning

Transition planning sits at the intersection of climate risk management, decarbonization strategy and forward-looking governance. It has only recently emerged as a distinct practice in corporate governance and financial oversight. While the frameworks and requirements surrounding transition planning vary, our analysis identified that they generally revolve around key elements: governance and engagement strategy, metrics and targets, and implementation strategy (See: SSE, 2025; NGFS, 2024b; TCFD, 2017; Directive (EU) 2022/2464, 2022; ISSB, 2023a; UK TPT, 2023; GFANZ, 2022a).

Governance and engagement strategy: Transition planning starts with an internal assessment or baseline understanding of a company's ambitions, operations, emissions, material risks and stakeholder expectations. This consists of the governance pillar, in which internal policies, control and accountability mechanisms are reviewed, ideally with support from the executive level. This enables the entity to define its goals and priorities, identify the gaps and challenges it faces and develop an effective engagement strategy. This is a step that involves key stakeholders, including value chain players such as suppliers, customers, peers and relevant governments.

Metrics and targets: Clear and measurable targets should be established across short-, medium-, and long-term horizons to drive progress and ensure accountability in relation to the company's climate-related goals. For instance, this may include those related to decarbonization, with a long-term, science-based target alongside an interim emissions reduction target (e.g., reduce Scope 1 and 2 emissions by 45% by 2030 compared to an identified baseline); business and operational targets (e.g., improving energy efficiency across operations; targeting a certain percentage of capital expenditure on low-carbon activities and projects); or adaptation and resilience targets (e.g., completing vulnerability assessments of a certain proportion of physical infrastructure within a specified time frame). Notably, emerging frameworks/standards remain non-prescriptive towards the ambition level of these targets. In other words, they do not specify that a target must be set at a specific level; only that a target must be set.

Implementation strategy: The implementation strategy activates the specific internal policies and actions needed to decarbonize. It involves operational changes, collaboration across the value chain, alignment of financial resources and strong governance measures that ensure oversight, accountability and progress. Implementation is cyclical, revisiting governance through monitoring, measurement and continuous improvement and adaptation, and ideally includes verification by a third party. As business conditions evolve and data improves, engaging in an iterative planning process enables companies to track their progress against internal milestones and refine their strategy in response to shifting risks, opportunities and expectations.

This internal transition planning process provides the necessary basis for companies that choose (or are required) to formalize and document their transition strategy for an external audience in the form of a transition plan.

3.2 Transition plans

As previously defined, a climate-related transition plan provides the vehicle for documenting and communicating the transition strategy to stakeholders. It translates the strategy resulting from the internal process into a document outlining how the company will achieve its climate-related goals and manage risks. As an action plan, it outlines steps, timelines, targets, financial implications and accountability structures.

Publishing a formal plan can improve market transparency, help direct capital toward credible low-carbon paths and—ultimately and critically—accelerate the low-carbon transition. The specific focus of a transition plan, and the extent to which it is made public, often relates to its underlying objective and intended audience.

3.2.1 Risk- vs. strategy-focused transition plans

Transition planning and plans vary in their focus and purpose, which relates directly to the "use case" for the plan (see sub-section 3.3). This focus generally falls along a spectrum (NGFS, 2023; SSE, 2025; Toronto Centre, 2025). The spectrum falls between risk- to strategy-focused plans (see Figure 2 below).

Risk-focused transition plans prioritize identifying and managing climate-related risks to the entity. This approach is particularly relevant to financial institutions, with plans of this nature primarily detailing actions to manage financial risks stemming from climate change (NGFS, 2023). Risk-focused plans can be useful to financial regulators that are mandated to ensure the stability of the financial system or to assess whether individual financial institutions within their remit are effectively managing their climate-related financial risks (NGFS, 2023).
As such, they are often geared toward internal governance or regulatory compliance and are more closely aligned with traditional risk-management frameworks compared to strategy-focused plans (NGFS, 2023; Toronto Centre, 2025). Given that risk-focused plans seek to manage the impacts of climate change on an entity, examples of targets may include undertaking physical risk assessments within a certain timeframe or directing a certain proportion of financing to climate-resilient assets. Whether the plan is publicly disclosed depends on the entity's discretion or on regulatory disclosure requirements (NGFS, 2023).

Strategy-focused transition plans convey a company's strategic approach to achieving specific climate-related goals, such as headline commitments to achieve net-zero emissions by a certain date, along with time-bound emissions-reduction targets aligned with national or international climate targets (Toronto Centre, 2025). These plans are broader in scope and are designed with external stakeholders in mind, particularly investors and shareholders, as well as regulators and financial authorities (NGFS, 2023). Because of their transparency function, they are more likely to be publicly disclosed. Examples include plans aligned with the Glasgow Financial Alliance for Net Zero (GFANZ) and UK Transition Plan Taskforce (TPT) frameworks, which emphasize not only internal strategy but also external engagement with government and policy actors to support an orderly transition.

Figure 2: Spectrum of strategy- to risk-focused transition planning and plans

Risk-focused		Strategy-focused
Manage climate-related financial risks	**Main goal**	Align with net-zero targets and broader climate goals
Narrower (financial risk controls, exposures, governance), protective, loss avoidance, compliance and audit-oriented	**Scope**	Broader (business strategy, enterprise value, engagement, targets)
A small set of firms, including non-financial corporations and financial institutions that are required to develop transition plans	**Sectoral coverage**	All firms, including non-financial corporations and financial institutions
Primarily internal for regulators	**Audience**	Primarily external for investors, the public and regulators

IFRS S2, OSFI B-15 Guideline, California SB-261	**Examples of applicable frameworks**	GFANZ, UK TPT, EU CSRD, OECD

The similarities and distinctions between the two sides of the spectrum carry important implications for adopters, users, standard setters and regulators. Understanding where a transition plan sits along the risk–strategy spectrum helps determine the relevant disclosure frameworks, materiality thresholds and data requirements. It also shapes who the information's primary users will be, how progress is assessed, and which incentives or enforcement mechanisms are appropriate. For example, supervisory authorities may prioritize setting minimum disclosure requirements focused on identifying and managing entity-level risk to enable economy or sector-wide monitoring of systemic financial risk. At the same time, investors and civil society may seek forward-looking, strategy-focused plans that articulate an entity's role in enabling climate solutions and alignment with the low-carbon transition.

In practice, a firm's position on this spectrum is often not a static choice but rather a learning process. Firms may begin with a risk-focused (single materiality) plan centred on risk mitigation and compliance. Over time, as their internal capacity, data quality and regulatory expectations mature, they can layer in strategy, innovation and alignment with broader transition goals, effectively building towards a more comprehensive, strategy-focused (double materiality) perspective. The reverse dynamic is also possible. Firms may initially adopt a more outward-facing, strategy-oriented transition plan, and then gradually integrate more rigorous risk-management practices as they become familiar with transition planning, build internal systems and recognize the operational value of embedding transition risk management into core decision-making.

This spectrum of approaches is also evident across jurisdictions, from voluntary frameworks underpinned by general guidance on assessing climate risk (e.g., the single-materiality orientation of the U.S. framework) to models built around strong disclosure expectations (e.g., the UK), to fully mandated, public transition plan regimes (e.g., the double-materiality orientation of the EU regulations). These features reflect differences in voluntary disclosures, legal mandates, supervisory remits and the balance between risk-management and emissions-reduction perspectives in transition planning (Toronto Centre, 2025).

3.3 Use cases for transition planning and plans

A "use case" gives an example of how a transition plan works in a real-world setting, illustrating its relevance and application. As noted by the Sustainable Stock Exchange Initiative (2025), these uses may include portfolio alignment, policymaking, accountability, regulatory assessment, operational decision-making, capital market transparency and financial mobilization. Here, we offer an overview of key stakeholder groups, their roles in the transition and associated high-level use cases (see Table 1 below).

Table 1: High-level use cases

Stakeholder	Objective	Use transition planning and plans to…
Non-financial corporates	Develop and implement transition strategies as part of business and risk-management operations	• Identify decarbonization paths • Inform strategic and operational planning to manage climate risks and opportunities • Align business models and operations with climate-related goals • Guide internal capital budgeting and investment decisions • Comply with regulatory or voluntary disclosure requirements
Financial institutions	Use corporate transition plans to guide capital allocation; prepare own plans to meet regulatory, fiduciary or strategic objectives	• Manage and price climate-related physical and transition risks • Facilitate evaluation of sustainable financing decisions (lending, investing, underwriting) • Align portfolio with net-zero targets (e.g., investment decision-making around emission reduction strategies) • Engage with clients and investees on alignment with climate-related goals
Regulators	Monitor and assess climate-related financial risk across the system; ensure regulatory compliance	• Conduct supervisory reviews and oversee transition risk management • Monitor financial system stability and firm-level exposures • Enforce mandates and assess penalties for non-compliance
Policymakers	Use aggregated transition plan-related information to shape climate and economic policy	• Design and iterate climate-related policies and regulations • Develop sectoral decarbonization paths • Support economic, fiscal and climate risk modelling
Civil society	Monitor, assess and advocate for the credibility and effectiveness of transition planning	• Promote accountability and transparency (e.g., on greenwashing) • Conduct independent research and benchmarking • Advocate for strong standards, just transition principles and Indigenous rights

This range of applications amongst different stakeholders has created a demand for common standards to ensure these plans are credible, comparable and decision-useful. As various stakeholders use transition plans to inform their decision-making, there is growing recognition that a truly comprehensive strategy must look beyond climate to account for our fundamental dependencies on the natural world.

3.4 Integrated transition planning: accounting for nature dependencies

Transition planning has traditionally focused on climate change, but there is growing recognition that nature-related impacts and dependencies are key strategic considerations. Integrated transition planning incorporates other considerations, such as nature-related impacts and dependencies, as part of its broader institutional and systemic resilience objectives (Network for Greening the Financial System, 2025a).

In Canada, economic activity is closely linked to land use, natural capital and ecosystem services, making ecosystem degradation and biodiversity loss a clear source of physical and business risks to entities and economies (Twigg et al., 2024). A 2025 landmark legal opinion concluded that Canadian corporate directors and officers may face liability exposure if they fail to account for material nature-related financial risks (DeMarco & Vollmer, 2025).

At the same time, integrating nature considerations into transition planning can reveal opportunities for value creation, resilience and innovation, including through nature-positive investments, improved resource efficiency and more robust supply chains (UK Transition Plan Taskforce, 2024b). Businesses that ignore their dependencies on nature risk underestimating material exposures, overlooking strategic opportunities and falling out of step with emerging global norms. Reflecting this shift, the Taskforce on Nature-related Financial Disclosures (TNFD) builds upon the foundations of climate disclosure frameworks such as the TCFD, reinforcing that climate and nature disclosures are converging domains of risk governance.

Having discussed transition planning and plans, the spectrum of approaches and the various use cases, the next section examines the value proposition. It details the tangible benefits stemming from transition planning for financial and non-financial corporate preparers of plans, to the external stakeholders who may use the information.

4. Benefits of transition planning and plans

This section highlights how transition planning improves internal decision-making, risk management processes and access to capital at the firm level, while enhancing transparency, accountability and resilience across the broader economic and financial system.

Transition planning generates tangible benefits at two interconnected levels (see Table 2). For organizations, the planning process strengthens strategic decision-making by embedding climate considerations into governance, risk management, operations and capital allocation. For users of transition plans, such as investors, regulators, policymakers and value-chain partners, the value lies in improved transparency and decision usefulness. Transition plans provide forward-looking, decision-useful information that helps assess, manage and share risks, and coordinate action across firms, sectors and the broader economy. These benefits showcase why a transition plan is a central component of the climate information architecture and crucial for supporting different climate and risk management policy objectives.

For organizations, the process of planning disciplines internal analysis by identifying emissions sources, governance arrangements, operational dependencies and financial exposures. This enables more evidence-based decisions on efficiency measures, capital allocation and risk

mitigation. For example, quantifying energy use and identifying emissions drivers can reveal opportunities to reduce operating costs, improve productivity and avoid future compliance or transition-related expenses. Similarly, by anticipating physical risk-related exposure and vulnerabilities, organizations that engage in credible transition planning are better positioned to maintain climate resilience in their operations. These improvements in internal decision-making can increase confidence in management's ability to navigate climate-related risks, reduce reputational and legal risks by reducing exposure to unsupported climate claims and provide opportunities to build long-term business value. As a result, credible transition planning has been associated with lower financing costs, improved lending and equity terms and stronger positioning in supply chains.

For users of transition plans, the value lies in improved transparency and decision usefulness. Investors and financial institutions can better price climate-related risks, assess risk and return profiles of investments and identify investment opportunities aligned with a low-carbon, climate-resilient transition. Clear, comparable transition plans support portfolio alignment, engagement strategies and capital allocation decisions across lending, investment and underwriting activities.

Regulators and supervisors use transition plans to assess whether firms are identifying, managing and mitigating material climate-related risks in line with emerging prudential and disclosure expectations. At an aggregate level, transition plan information demonstrates that firms are serious about compliance and accountability, thereby reducing regulatory risk and supporting monitoring systemic risks and the resilience of the financial system.

Policymakers can draw on entity-level transition plan information to inform public policy decisions. By improving visibility into firm-level strategies and constraints, transition planning can strengthen policy feedback loops and help align private-sector action with broader sectoral and national strategies.

Beyond financial and policy actors, transition plans also benefit customers, communities, suppliers and partners by clarifying climate commitments and operational details. This transparency can shape purchasing behaviour, support social licence to operate and enable coordinated action across value chains on technology deployment, logistics and efficiency improvements.

For more information on the benefits of transition planning and plans, refer to the landscape report from Business Future Pathways and the International Transition Plan Network.

Table 2: Summary of benefits

Categories	Benefits
Operational efficiency (firm-level)	• Cut operational energy costs (Köcher et al., 2023) • Facilitate innovation (Stern & Valero, 2021) • Help to scale sustainable investment in organizations (The Investor Agenda, 2022)

Risk management and resilience (firm-level)	• Enhance business resilience via physical (Cambridge Institute for Sustainability Leadership (CISL, 2019a) and transition (CISL, 2019b) risk identification and mitigation • Recognize external dependencies, i.e., the extent to which they are dependent on external factors to achieve their goals (Rose et al., 2025) • Add a layer of protection against greenwashed claims (Bingler et al., 2023)
Financial performance (firm-level)	• Create a higher return on equity and lower loan spreads (Zhou et al., 2024) • Lower the cost of capital (Malich & Husi, 2024) • Avoid costs associated with carbon allowances (European Environment Agency, 2024) • Improve green bond issuances (Gardiner & Freke, 2024) • Lower insurance premiums (Sustainable Insurance Forum, 2024; UNEP, 2024a) • Tax savings (Degot et al., 2023)
Strategic position and organizational capacity (firm-level)	• Build a reputation with consumers (Haller et al., 2022) and investors • Attract top talent (Cheung et al., 2022; PwC, 2022) in related and emerging fields
Stakeholders	• For investors and financial institutions: highlight the risk and returns trade-offs, identify and prioritize investments (Lloyds Bank, 2024: Montague et al., 2024) • For regulators: evidence compliance with net-zero related regulations and commitments (Marks & Dalton, 2025); better understand and safeguard against systemic risks in the financial system (FSB, 2025b; EU PSF, 2025) • For policymakers: leverage transition plan information to support public policy decisions (International Transition Plan Network (ITPN), 2025a), monitor real-world progress toward national and/or sectoral climate-related targets, and inform options for supportive policy measures to enable concrete corporate action (ITPN, 2025). • For customers and communities: push entities to shift their behaviour towards more sustainable practices and align with global climate goals to limit global warming (Brodin, 2025; The Young Foundation, 2023) • For suppliers and partners: promote value-chain collaboration, efficiency (Experiential Roadmap Initiative, 2024)

However, realizing these benefits is not automatic. The value of transition planning depends on whether plans are credible, comparable, and usable by decision-makers across the economy. What counts as “credible” and “decision-useful” is being shaped by global norms and regulatory expectations, which establish the benchmarks for transition planning and plans. As the following sections show, understanding how these norms are emerging and converging is a necessary precursor to assessing where Canada stands—and to understanding how global implementation challenges translate into the Canadian context. This, in turn, provides the

foundation for considering how Canada can advance credible transition planning and fully realize the benefits outlined above.

5. Evolving global norms and where Canada stands

This section surveys how global norms for climate-related transition planning have evolved from voluntary guidance (ex., UK TPT, GFANZ) to more formal standards under the International Sustainability Standards Board (ISSB) and regulatory requirements across different jurisdictions. It also examines Canada's progress in adapting transition planning standards that reflect the country's federal structure, sectoral realities and capacity constraints.

Globally, several jurisdictions are transitioning from voluntary guidance to regulatory requirements for climate-related transition planning and are in the early stages of developing policy and institutional support. This recent emergence means that much of the global economy is learning on the fly, developing, testing and iterating on what transition plans should contain, how they should be implemented and what roles various actors (non-financial corporates, financial institutions and regulators) should have in ensuring their credibility and oversight.

5.1 Global convergence of transition planning guidance

The Intergovernmental Panel on Climate Change (IPCC) first referenced transition plans a little over a decade ago (IPCC, 2014). Since then, climate-related transition planning has evolved from a concept to concrete standards that are converging internationally. This evolution is synthesized below with a primary focus on international standards development and developments in jurisdictions economically relevant to Canada, namely the U.S. and the EU (see Box 1).

Box 1: Chronology of key developments in transition planning (Canada-specific marked by flag)

2014 – IPCC formally references transition plans in its *Fifth Assessment Report* as part of a broader climate mitigation pathway.

2015 – TCFD is established by the Financial Stability Board (FSB) to improve and increase reporting of climate-related financial information. TCFD guidance from 2017 to 2023. Absorbed into the IFRS Foundation in 2023.

2016 – Global Reporting Initiative (GRI) releases first universal standards in support of broader ESG and sustainability reporting.

2021 – ISSB established by IFRS Foundation at COP26 and consolidates the Climate Disclosure Standards Board and the Value Reporting Foundation (inc. SASB Standards) by June 2022.

2022 – OECD publishes guidance on transition finance. The Organisation for Economic Co-operation and Development releases its ten-part framework for credible corporate climate transition plans, emphasizing the importance of transparency, feasibility and science alignment to avoid greenwashing.

2022– GFANZ issues Foundational Net-Zero Transition Plan guidance to set a global baseline for transition planning. It continues to evolve guidance on integrating nature, just transition, and sectoral pathways (2024).

2022–2023 – UK TPT develops framework, creating a five-pillar "gold standard" for credible transition plan disclosure, now widely adopted as a best practice and formally absorbed by IFRS in 2024.

2023 – ISSB releases IFRS S1 and S2, its first two standards, establishing a global baseline for sustainability and climate-related financial disclosures.

2023 – Canadian Sustainability Standards Board (CSSB) established to adapt and endorse ISSB standards for the Canadian context.

2023 – OSFI releases B-15 Guideline. Canada's prudential regulator, the Office of the Superintendent of Financial Institutions, introduces Guideline B-15, requiring federally regulated financial institutions to develop climate transition plans (with final disclosure date TBD).

2024 – CSSB publishes draft CSDS 1 and 2, exposure drafts of Canada's climate and sustainability disclosure standards, aligned with ISSB but tailored to domestic needs.

2024 – EU CSDDD finalized. The EU Corporate Sustainability Due Diligence Directive is adopted, requiring companies to develop transition plans with time-bound targets and governance oversight.

2024 – U.S. SEC finalizes climate disclosure rule. The U.S. Securities and Exchange Commission (SEC) adopts a climate-related disclosure rule, though it faces immediate legal challenges.

2024 – Québec publishes Autorité des marchés financiers (AMF) Climate Risk Management Guideline. Québec becomes the first Canadian province to mandate climate risk integration into the governance, strategy and risk management of provincially regulated financial institutions.

2024 – IFRS Foundation assumes stewardship of TPT materials. The IFRS Foundation formally takes over responsibility for maintaining TPT's disclosure-specific resources, integrating them into the IFRS Knowledge Hub.

2024 – SEC stays enforcement of its climate disclosure rule. The U.S. SEC voluntarily suspends implementation of its climate rule amid ongoing litigation, creating uncertainty in North American disclosure alignment.

2024 – CSSB publishes final CSDS 1 & 2. The Canadian Sustainability Disclosure Standards are finalized, with transition relief and flexible treatment of Scope 3 emissions and scenario analysis.

2025 – CSA pauses NI 51-107. The Canadian Securities Administrators pause finalization of their climate disclosure rule (NI 51-107), citing global volatility and regulatory alignment concerns.

2025 – EU Omnibus Directive introduces CSRD and CSDDD adjustments. The proposed changes include a postponement of the CSRD and CSDDD reporting requirements, as well as a reduced scope of companies required to report under the CSRD (those with 1,000+ employees + revenue thresholds). As proposed, this would reduce the number of companies in the scope of the CSRD by ~80%. *Pending the outcome of ongoing negotiations in the EU, the details of these requirements are uncertain and subject to change.*

2025 – Business Future Pathways initiative launched to support the development of credible, science-based climate transition plans for the real Canadian economy.

Early progress was driven by voluntary frameworks aimed at improving transparency and consistency in climate-related disclosures. A year after the IPCC's Fifth Assessment Report elevated the concept of transition plans, the FSB created the TCFD to improve and expand reporting of climate-related information (TCFD, n.d.). Alongside the TCFD, the GRI issued its first Universal Standards for sustainability reporting in 2016 (GRI, 2025), which have since been continually refined.[2]

From the early 2020s onward, transition planning norms began to mature and converge. Initiatives such as the OECD's *Guidance on Transition Finance: Ensuring Credibility of Corporate Climate Transition Plans* (2022) and GFANZ's *Global Baseline Report* (2022) emphasized the importance of transition planning alongside climate-related disclosures, helping to establish a baseline for credible transition planning. In parallel, the UK's TPT developed what is now widely regarded as the "gold standard" framework for credible transition planning and plans, including sector-specific implementation guidance for 30 sectors (UK TPT, 2023).

This period of convergence was further reinforced by the establishment of the ISSB and the release of IFRS S1 and S2. The ISSB created a global baseline for sustainability and climate-related financial disclosures and embedded transition planning as a core element of forward-looking climate strategy. Related developments, including the absorption of UK TPT disclosure materials into the IFRS Foundation's resources and the release of the TNFD recommendations, signalled a broader alignment across climate, nature and transition-related risk governance.

Despite this overall trend toward convergence, progress has not been linear across jurisdictions. For example, in the U.S., the SEC finalized a climate-related disclosure rule in 2024. However, implementation has been delayed following legal challenges and political opposition (U.S. SEC, 2025). In the EU, concerns about administrative burden, competitiveness

[2] GRI produced new Topic Standards on Tax (2019), Waste (2020), a major update to the three Universal Standards in 2021, and successive Sector Standards on Oil & Gas (2021), Agriculture, Aquaculture & Fishing (2022) and Coal (2022), Mining (2024) and a revised Biodiversity Topic Standard (2024)

and proportionality have led to changes in scope and enforcement through the Omnibus Simplification Package (European Commission, 2025).

Nonetheless, the overall trajectory has been toward greater convergence around common principles, definitions and disclosure expectations. The convergence plays a critical role in reducing reporting fragmentation, lowering compliance costs for globally active firms, enhancing comparability for investors and strengthening the credibility of transition plans (Dikau et al., 2025). The growing alignment of transition planning frameworks with climate disclosure standards further reinforces their role as a core component of the climate information architecture.

5.2 Where does Canada stand on transition planning?

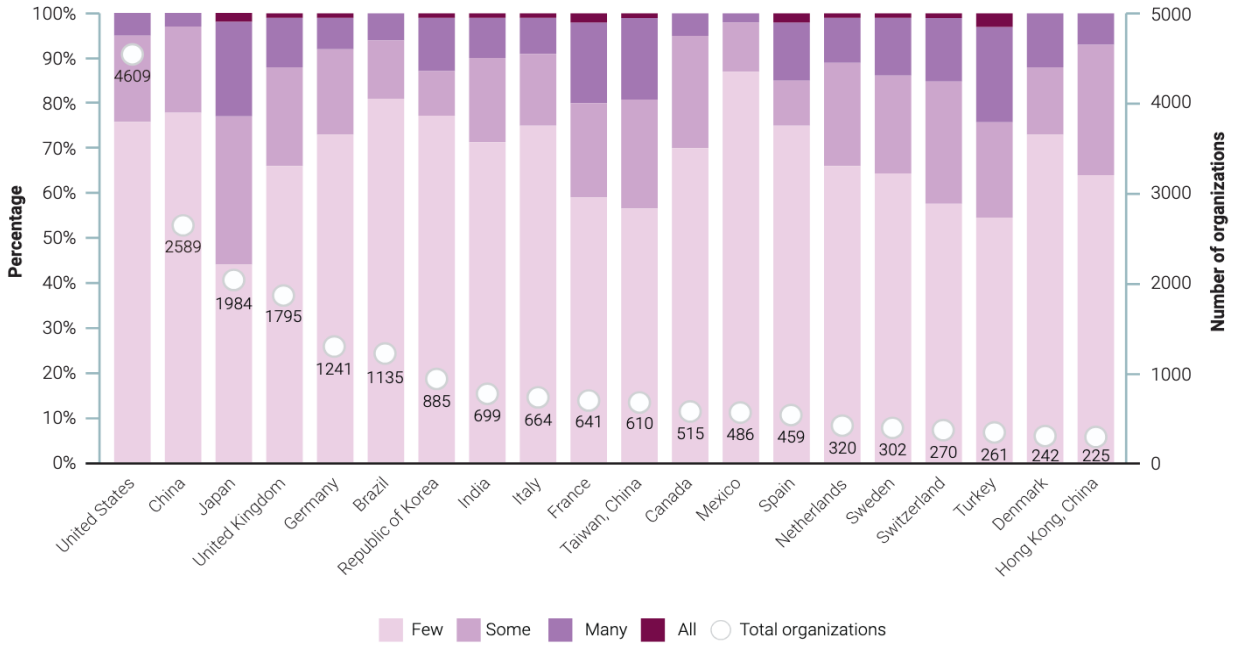
While a handful of federally regulated financial institutions, Crown corporations and certain entities in Quebec are required to explain and disclose how they are managing climate-related risks, available evidence suggests that overall adoption and the depth of transition planning in Canada lag those of global peers (Business Future Pathways, 2025).[3] Climate Engagement Canada's (CEC) 2024 benchmark assessment of 40 TSX-listed focus companies found that just over half had detailed transition plans or decarbonization strategies in place, compared to 70% of their global peers (CEC, 2024).

Other data is even starker. According to the Carbon Disclosure Project (CDP), only 5% of 515 Canadian companies analyzed for climate transition plan disclosure had disclosed against 'many'[4] of the key indicators used by CDP to assess transition plans (see Figure 3). This lags the global share of companies disclosing against 'many' indicators (9%) and, as shown in Figure 3, the gap is even wider than in leading countries such as Japan (21%) and France (18%) (CDP, 2024).

[3] It should be noted that entities are not expected to disclose in accordance with a full impact materiality perspective—reporting on impacts on climate and society even when they are not financially material to the company—as needed in some jurisdictions such as the EU.

[4] In CDP's analysis, companies were considered to have disclosed 'many' indicators of climate transition plans when disclosing against 14-20 (or 67-99%) of 21 key indicators.

Figure 3: Companies' disclosure of CDP transition plan elements, by country/region[2]



The gap is most pronounced when accounting for spending alignment with climate goals. Referring to CEC's 2024 benchmark assessment, in 2023, 39% of the Canadian companies analyzed had at least partially adopted net-zero strategies. However, none had disclosed plans to align their capital expenditures with a 1.5°C pathway (compared to 43% of their global peers) (CEC, 2024). By 2024, some slow progress was visible, with three of the 40 firms committing to align their capital expenditures.

These gaps do not reflect a misalignment between global standards and Canadian objectives to strengthen climate information, support climate policies and mobilize capital towards a low-carbon and climate-resilient economy. Rather, they are consistent with evidence showing that transition plans are only as strong as the contexts in which they are developed and implemented.

External factors, including policy strategies, regulatory environments, infrastructure and logistics technology, and market conditions, can significantly impact an entity's ability to implement its climate transition plan (Rose et al., 2025). Therefore, the observed gap underscores the need for international transition planning standards to account for the structural features of the economy, national institutional contexts and governance arrangements.

Canada can be characterized as a small, open (export-dependent) economy. Many small and medium-sized enterprises operate as part of the supply chain for larger entities but may not have the resources and internal capacity to engage with complex transition planning frameworks (OECD, 2024). Economic activity remains closely tied to emissions-intensive and resource-based sectors, with significant regional variation and capital-intensive transition pathways that depend on infrastructure availability and policy clarity (Conigrave, 2023).

Canada's economy is further shaped by deep reliance on nature and ecosystem services, from forestry and fisheries to agriculture and water-intensive industries (Natural Resources Canada 2023). In addition, Canada's commitments to advancing Indigenous rights and inclusion require stakeholders to demonstrate meaningful engagement, shared governance, and, where appropriate, ownership or benefit-sharing arrangements in economic activities involving Indigenous Peoples (King & Pasternak, 2018).

Another structural feature of the Canadian economy is that the regulatory environment is shaped by federalism. Under the Constitution Act of 1867, authority over energy, the environment, natural resources and financial markets is shared between federal, provincial and territorial governments. As a result, climate-related transition planning intersects with multiple regulatory domains, including prudential supervision, securities regulation and climate policy.

Federally regulated financial institutions fall under federal oversight, while securities and capital markets are primarily regulated at the provincial and territorial level, coordinated through the CSA (see Table 3). This distribution of authority can affect the coordination and sequencing of transition planning across Canada, as international standards and regulatory requirements evolve.

Table 3: Overview of financial regulation in Canada[3]

Sector/activity	Main regulator(s)	Jurisdiction
Banks	OSFI; oversight by the Minister of Finance	Federal
Consumer protection (Banking)	Financial Consumer Agency of Canada	Federal
Insurance companies	OSFI (federal solvency); provincial regulators (e.g., AMF in Québec) for conduct, sales, contracts	Federal + Provincial
Other financial services	Provincial regulators	Primarily Provincial
Securities & capital markets	CSA, provincial regulators, Canadian Investment Regulatory Organization and Canadian Pension Supervisory Authorities	Provincial + Self-Regulatory
Deposit insurance & bank resolution	Canada Deposit Insurance Corporation (CDIC)	Federal
Retail payments	Bank of Canada (via *Retail Payment Activities Act*)	Federal
Anti–money laundering/ATF	Financial Transactions and Reports Analysis Centre of Canada	Federal
Privacy & Data Protection	Office of the Privacy Commissioner under PIPEDA	Federal
Coordinating bodies		

Body	Role
Financial Institutions Supervisory Committee	Coordinates federal financial regulation; includes Finance Canada, OSFI, FCAC, CDIC, and Bank of Canada
Minister of Finance	Powers grounded in the *Bank Act* (R.S.C. 1985, c. B-1), broad responsibility for all matters related to the financial sector and authority for federal financial sector legislation

Despite these constraints, Canada has made notable progress in recent years, which includes:

- **Environment and Climate Change Canada's Net-Zero Challenge** – Provides a voluntary framework to support large Canadian companies in developing and disclosing credible net-zero transition plans. Although not a regulatory instrument, the Net-Zero Challenge has helped establish common reference points and socialize transition planning practices among Canadian firms, particularly in emissions-intensive and trade-exposed sectors.
- **OSFI's B-15 Climate Risk Management Guidelines** – Requires federally regulated financial institutions to develop climate transition plans as part of climate risk management. Grounded in OSFI's prudential mandate, the guideline aligns with international supervisory norms set by bodies such as the Basel Committee on Banking Supervision and the International Association of Insurance Supervisors, supporting financial stability, international comparability and continued access to global capital markets (OSFI, 2025a; Office of the Auditor General of Canada, 2023). At the subnational level, Québec has introduced a comparable binding climate risk management guideline for provincially regulated financial institutions through the AMF (AMF, 2025).
- **The CSSB's alignment with the ISSB through CSDS 1 and 2** – Established a Canadian baseline for climate-related and sustainability disclosures aligned with IFRS S1 and S2, while incorporating transition relief and flexibility to reflect domestic market readiness and capacity constraints (Blakes, 2025).
- **Business Future Pathways Initiative** – A multi-stakeholder effort to strengthen the credibility and consistency of corporate transition plans by developing science-based criteria, sector-relevant guidance and practical tools. While voluntary, the Initiative plays a complementary role to emerging standards and regulatory expectations by building capacity, socializing shared expectations and helping bridge the gap between high-level commitments and implementation in the Canadian context (Business Future Pathways, 2025).

Collectively, these efforts signal alignment with international norms and growing institutional support for transition planning. At the same time, they underscore that effective implementation depends not on the mechanical adoption of global standards, but on how those standards are adapted, sequenced and coordinated within Canada's distinct context. This includes its decentralized federal governance structure, emissions-intensive and nature-dependent economy, significant presence of small and medium-sized enterprises and

commitments to advancing Indigenous rights and inclusion. The following section examines the implementation barriers that arise from these realities.

6. Implementation challenges

This section outlines the principal barriers that hinder the development and implementation of credible and comparable transition plans in Canada. These challenges shape the extent to which transition planning can be an effective tool for risk management, capital allocation and climate policy delivery.

While transition planning is gaining traction globally and in Canada, significant barriers continue to limit the development of credible, comparable and decision-useful plans. These challenges reflect the practical constraints of implementing forward-looking planning tools in complex institutional, economic and governance contexts.

Drawing on international guidance from the TCFD, ISSB, NGFS, UK TPT, GFANZ, SBTi, CBI and CDP, and empirical evidence, this section groups implementation challenges into four interrelated categories: (1) interoperability and methodological challenges, (2) governance and coordination challenges, (3) data and scenario analysis challenges, and (4) firm capacity and internal readiness challenges. Together, these constraints explain why transition planning outcomes remain uneven in Canada and why credibility cannot be assumed simply through formal alignment with global standards.

6.1 Interoperability and methodological challenges

A central challenge for transition planning is the lack of full interoperability across the growing number of frameworks, standards and guidance documents. In general, initiatives such as the UK TPT and GFANZ are broadly aligned on principles. However, they differ in scope, required metrics and expectations around implementation. Transition plans prepared under one framework may not be directly comparable with those prepared under another, even when underlying strategies are similar, which can create confusion and an administrative burden for organizations developing transition plans.

These differences create methodological ambiguity for firms and complicate assessments of credibility for investors, regulators and other stakeholders who use transition plans (Nicolajsen et al., 2025). They also undermine the ability of markets, regulators, supervisors and other stakeholders to consistently assess the credibility of transition plans (Kouloukoui et al., 2025). For example, differing standards for what qualifies as a credible emissions-reduction path or an acceptable reliance on carbon markets can lead to different assessments of organizations pursuing similar strategies.

This is particularly relevant in Canada's fragmented regulatory environment, where shared federal-provincial jurisdiction over climate, energy and finance can amplify inconsistencies compared to jurisdictions with centralized regulation, such as the UK (see sub-section 6.2 below).

A related methodological ambiguity concerns expectations for Indigenous engagement. Although many frameworks reference stakeholder engagement at a high level, they provide limited specificity on how Indigenous engagement should be evidenced, documented or

evaluated within a transition plan. In a Canadian context—where Indigenous rights have distinct legal and governance implications—this complicates consistent assessments of credibility and increases the risk that engagement is treated as procedural rather than substantive. Without clearer guidance on how these benchmarks and other tools fit together, transition plans risk being perceived as inconsistent or incomplete and subsequently less effective.

6.2 Governance and coordination challenges

The implementation of transition planning and the disclosure of such plans are shaped by the governance arrangements of regulators, standard setters, financial institutions, industry and other related implementation agencies. As described in Section 5.2, Canada has shared federal–provincial authority over climate, energy, natural resources and financial markets. Regulators, standard setters and others have distinct mandates related to climate-related objectives, such as prudential supervision or disclosure oversight of material climate-related risks. These varying objectives can lead to differing interpretations of transition planning expectations and uneven sequencing and coordination across the economy (Islam et al., 2025).

The lack of coordination is evident in the existing regulatory landscape. Federally, OSFI has issued climate risk management guidelines and disclosure requirements for federally regulated financial institutions (OSFI, 2025a). In Québec, the AMF has issued similar binding guidance for provincially regulated financial institutions (AMF, 2025). However, there is no equivalent requirement for publicly listed companies in Canada, reflecting the fact that the CSA has paused efforts on mandatory climate reporting (CSA, 2024; Torys LLP, 2025). Large private companies that may face material climate-related risks or can play significant roles in achieving economy-wide climate-related objectives are also outside the scope of formal regulatory guidance or oversight related to transition planning (SFAC, 2023).

In the absence of coordinated governance arrangements and clear sequencing across firm types and sectors, many publicly listed and private companies may not engage meaningfully in transition planning, may default to minimum-compliance approaches, or may produce plans that are difficult for users to interpret, compare and apply consistently. Additionally, fragmented governance arrangements make it difficult to establish and reinforce consistent expectations for Indigenous engagement across firm types and jurisdictions, leading to uneven practice and reduced comparability across transition plans.

Uncoordinated governance also risks constraining the development and effective use of strategy-focused transition plans. Regulators such as OSFI and the AMF have growing expertise in assessing risk-focused transition plans within prudential frameworks. However, advancing more strategy-oriented plans that are focused on investment alignment, business transformation and long-term competitiveness will require stronger coordination and shared learning across regulators, standard setters, policymakers and market participants (NGFS, 2023; OECD, 2022; Toronto Centre, 2025). Without such coordination, transition planning risks remaining fragmented and skewed toward narrow compliance objectives rather than supporting broader economic transformation. This governance fragmentation has downstream implications for other users of transition plans, including financial institutions that rely on

comparable, decision-useful information to inform their own transition strategies and risk management.

6.3 Data and scenario analysis challenges

Credible transition planning depends on access to reliable, consistent and comparable data and analytical inputs. In practice, persistent data gaps remain a significant barrier to effective transition planning, limiting the credibility and decision-usefulness of plans across sectors.

Incomplete and inconsistent data pose major challenges for organizations, including in Canada (UNEP, 2024b; SFAC, 2021). Firms often rely on complex, fragmented and opaque value chains that span multiple jurisdictions, making emissions measurement and verification difficult, particularly for Scope 3 GHG emissions (Islam et al., 2023). Data is further constrained by variation in methodologies, baselines and assumptions across data providers. Ongoing efforts, including the federal government's *Climate Data Strategy* led by the Canadian Centre for Climate Services, represent useful starting points to address some of these gaps. However, further coordination will be critical to support transition planning and climate disclosures at scale (ECCC, 2024).

Beyond data availability, credible transition planning also depends on robust scenario analysis. Scenario analysis enables organizations to assess how different climate-related futures (e.g., different temperature outcomes, policy trajectories or technology adoption rates) could affect strategy, operations and financial performance, supporting resilience and risk-informed decision-making (TCFD, 2017; ISSB, 2023a; UK TPT, 2023; Bank of Canada, 2021). In transition planning, scenario analysis serves as iterative input to understand climate-related risk and opportunity dynamics, and plausible transition pathways as policy, technologies and market conditions change.

However, international frameworks remain largely non-prescriptive on how to quantify uncertainty, test resilience across multiple scenarios or translate scenario outcomes into concrete financial and investment decisions (NGFS, 2025b). As a result, current practices exhibit wide variation in quality, transparency and comparability (SFAC, 2021; UN HLEG, 2022). Where scenarios are disclosed, they often lack alignment with science-based pathways, omit region- or sector-specific risks or fail to disclose key assumptions such as policy timelines, technology deployment rates or commodity price sensitivities (UN HLEG, 2022; S&P Global, 2025; Stephenson & Allwood, 2023).

6.4 Firm-level capacity and internal readiness challenges

Even where data, guidance and frameworks are available, many organizations face practical barriers to implementing credible transition plans due to internal capacity limitations (IFRS Foundation, 2024; OECD, 2022; TCFD, 2019). Firms may have siloed governance structures and misaligned incentives that can hinder the integration of transition planning into core business strategy, capital allocation and risk management (TCFD, 2019). They may also lack in-house technical expertise or sufficient financial resources to engage external support, such as consultants, auditors or verification providers (OECD, 2022). These constraints cut across sectors and geographies and tend to be more pronounced for two groups of firms.

First, firms operating in resource-intensive or hard-to-abate sectors face additional challenges. These sectors are characterized by legacy, capital-intensive assets with long lifetimes, high upfront transition costs and significant uncertainty regarding future policy, infrastructure and technology availability. The need to regularly update transition plans in response to evolving standards, data and stakeholder expectations strains organizational capacity, particularly for firms already managing complex operational transitions (OECD, 2022).

Second, small and medium-sized enterprises (SMEs) face distinct capacity constraints. These enterprises account for 64% of private-sector employment (7.8 million Canadians in 2022) and contributed approximately 48% of GDP between 2016 and 2020 (ISED, 2023; SME Research & Statistics, n.d.). Capacity challenges are especially pronounced among Canadian SMEs in emissions-intensive sectors where transition planning demands are high and enabling supports are limited (SFAC, 2021; OECD, 2024). The result is an emerging two-tier implementation landscape in which larger firms are gradually building transition planning capability, while smaller firms face persistent barriers to participation due to limited guidance, resources and institutional support.

Together, the methodological, governance, data and capacity barriers outlined in this section highlight that the challenge facing Canada is not the absence of transition planning frameworks, but the need to operationalize them coherently and credibly across a complex economic and institutional landscape. The following section builds on this analysis by outlining future research and governance innovation needed to strengthen transition planning as a tool for climate risk management, capital allocation and economic transformation in Canada.

7. Conclusion and future research

Transition plans can function as strategic, forward-looking instruments for managing climate-related risks, guiding capital allocation and supporting organizational transformation through the low-carbon transition. By linking governance, strategy, data and investment decisions, transition plans can enhance clean innovation, climate resilience and competitiveness in an increasingly uncertain global environment.

Even amid recent rollbacks of climate commitments and reductions in regulatory stringency in some jurisdictions, the strategic value of credible transition planning remains undiminished. Investor expectations, international reporting norms and market pressures continue to converge around the need for actionable, internally coherent and verifiable approaches to managing climate-related risks and opportunities. As global supply chains, capital markets and climate impacts evolve, firms that can clearly articulate how they are preparing for and contributing to the transition will be better positioned to attract capital, manage risks and generate long-term value for their organization.

Canada is now at a pivotal juncture. While important foundations have been laid, the barriers identified in Section 5 (i.e., methodological fragmentation, data and guidance gaps, uneven organizational capacity and governance and coordination challenges) risk limiting the effectiveness of transition planning and undermining its credibility in practice. Without clearer benchmarks, stronger coordination among stakeholders and targeted capacity-building,

Canadian firms may fall even further behind global peers and miss opportunities to lead, innovate and compete.

At the same time, these challenges raise a more fundamental question that remains unresolved: **what constitutes a credible climate-related transition plan in the Canadian context?**

Addressing this question is not simply a matter of alignment with international norms. For Canada, converging toward a shared benchmark for credible transition planning requires translating global best practices into frameworks that reflect domestic realities—including federalism, an emissions-intensive and nature-dependent economy, Reconciliation commitments, and a significant presence of small and medium-sized enterprises—while maintaining alignment with international expectations. Such an approach can support access to global capital, reduce compliance and greenwashing risks, and enhance consistency across Canada's decentralized regulatory environment. Without a clearer, shared understanding of credibility, transition planning risks remaining aspirational, unevenly applied, or insufficiently connected to real-world decision-making.

An upcoming Smart Prosperity Institute brief, *The Credibility Imperative*, will begin to address this question by synthesizing where leading international frameworks converge on the defining features of credibility and, critically, by identifying the unresolved questions that continue to limit the clarity, comparability and decision-usefulness of transition planning and plans in Canada. This work will contribute to a growing evidence base supporting effective, equitable and internationally credible transition planning in the Canadian context.

Annex A: Transition plan definitions

Table 4 below provides a sample of definitions for transition plans from key organizations, illustrating the nuances and areas of convergence in this evolving field.

Table 4: A sampling of net-zero transition plan definitions

Organization	Definition
ISSB	"A climate-related transition plan is an aspect of an entity's overall strategy that lays out the entity's targets, actions or resources for its transition towards a lower-carbon economy, including actions such as reducing its greenhouse gas emissions." (ISSB, 2023b, p. 19).
UK TPT	**Uses the ISSB's definition of a "climate-related transition plan" and adds 'strategic ambition' or the*: "objectives and priorities for responding and contributing to the transition towards a low GHG-emissions, climate-resilient economy [and] how the entity is pursuing these objectives and priorities in a manner that captures opportunities, avoids adverse impacts for stakeholders and society, and safeguards the natural environment" (UK TPT, 2023, p. 15).
SBTi	[The SBTi Net-Zero Standard defines corporate net-zero as] "reducing scope 1, 2, and 3 emissions to zero or a residual level consistent with reaching global net-zero emissions or at a sector level in eligible 1.5°C-aligned pathways; and permanently neutralizing any residual emissions at the net-zero target year and any GHG emissions released into the atmosphere thereafter" (SBTi, 2024, p. 62).
UNEP-FI	"A company's climate transition plan is a time-bound action plan that outlines how the organisation will pivot its existing assets, operations and entire business model towards a trajectory that is aligned with a fixed, defined target, such as net-zero by 2050" (UNEP, 2023, p. 1).
CBI	"A time-bound and trackable strategy and roadmap presenting the plans and actions for reducing emissions with a science-based pathway to net zero" (CBI, 2023, p. 3).
GFANZ	"A set of goals, actions, and accountability mechanisms to align an organization's business activities with a pathway for net-zero GHG emissions that delivers real-economy emissions reductions in line with achieving global net zero" (GFANZ, 2022a, p. vi).
CDP	"A time-bound action plan that clearly outlines how an organization will pivot its existing assets, operations, and entire business model towards a trajectory that aligns with the latest and most ambitious climate science recommendations. i.e., halving greenhouse gas (GHG) emissions by 2030 and reaching net-zero by 2050 at the latest, thereby limiting global warming to 1.5°C" (CDP, 2021, p. 3).

Annex B: Key frameworks and regulations of relevance to Canada

This annex provides additional detail on key international, national and subnational frameworks and regulations relevant to Canada, as discussed in Section 5 of this report.

1. The EU's CSRD and CSDDD

Under the EU's CSRD, entities are required to disclose a transition plan as of 2025 if they have one in place. If they do not, they must explain why not and when they plan to develop one. However, by 2029, the CSDDD will fully implement its transition plan mandates, depending on company size, and will require due diligence (e.g., a process for identifying, evaluating and mitigating risks) and reporting. Disclosed plans will be required to include a time-bound, five-year intermediary target (2030-2050) covering, "where appropriate," all three scopes of GHG emissions. Further, the Directive imposes duties on companies' directors to establish and oversee the implementation of due diligence processes and to integrate them into corporate strategy.

2. California SB 253, SB 261 and SB 219

While international initiatives, such as the EU's CSRD and the ISSB standards, are shaping global norms, California's climate disclosure regime warrants particular attention from Canadian stakeholders. As one of the world's largest economies, California has long exerted significant global regulatory influence, often serving as an early mover whose policies have a ripple effect. This "California effect" (Vogel, 1997; Aragòn-Correa et al., 2020) is evidenced in Canadian climate policy, where provincial and federal regulations reflect policy diffusion from the state. California also has world-leading environmental regulatory capacity (Kaiser, 2020), and many Canadian firms with subsidiaries or operations in the state may fall directly within the scope of its new disclosure mandates. As such, California's transition-related reporting laws are not just a subnational outlier but an early signal of where global expectations may be headed.

In 2023, it passed two major laws: Senate Bill 253, focused on corporate emissions reporting, and Senate Bill 261, mandating climate-related financial risk disclosures, which were subsequently amended by SB 219 in 2024. These laws impose mandatory requirements on large public and private companies operating in California, with thresholds of $1 billion in annual revenue (SB 253) and $500 million (SB 261), respectively. SB 253 requires disclosure of Scope 1, 2, and 3 GHG emissions, in line with the Greenhouse Gas Protocol, and phases in limited assurance requirements. SB 261 requires biennial climate risk reporting aligned with frameworks such as the TCFD and the ISSB's IFRS S2. While the statutes formally apply to U.S.-incorporated entities, they are expected to capture foreign companies with U.S.-based subsidiaries meeting the business and revenue thresholds. The California Air Resources Board is leading the rulemaking process, emphasizing interoperability with international frameworks and ease of compliance. Amendments under SB 219 reflect a broader trend toward reducing stringency during early phases of implementation, as jurisdictions recalibrate disclosure mandates to account for administrative burden and market readiness. Key updates include extending rulemaking deadlines, adjusting Scope 3 timelines, eliminating reporting fees and

clarifying that subsidiaries qualifying individually are not required to report separately. Regulations will take effect for fiscal years beginning in 2025, with phased implementation of assurance starting in 2026 and 2030.

3. The International Sustainability Standards Board

The IFRS Sustainability Disclosure Standards, developed by the ISSB and established in late 2021 by the IFRS Foundation, form the global baseline for climate-related disclosures. Their inaugural standards include the IFRS S1 *General Requirements for Disclosure of Sustainability-related Financial Information* and IFRS S2 *Climate-related Disclosures*. It is IFRS S2 that defines a climate transition plan as "an aspect of an entity's overall strategy that lays out the entity's targets, actions, or resources for its transition toward a lower-carbon economy, including actions such as reducing its greenhouse gas emissions." (ISSB, 2023b, p. 19). It proposes the disclosure of any climate-related transition plan the entity has, including information about the key assumptions used to develop it and the dependencies on which it relies *(see Paragraph 14(a)(iv))* (ISSB, 2023b). These requirements aim to promote transparency around how firms adapt their business models in response to climate risks and opportunities. The CSSB, which was formally established in 2022 with the task of adapting the ISSB standards for the Canadian context, released its substantively identical voluntary CSDS 1 *General Requirements for Disclosure of Sustainability-related Financial Information* and CSDS 2 *Climate-related Disclosures* in December 2024 (for CSSB project details, see here).

4. The UK's Transition Plan Taskforce

The TPT was launched in April 2022 to establish the "gold standard" for private-sector climate transition plans. Its materials are built on the ISSB and GFANZ to offer further depth and detail for preparers and users, "as informed by global engagement with financial institutions, non-financial corporates, policymakers, regulators and civil society." The UK Financial Conduct Authority's listing rules already include transition plans for some listed companies, asset owners and managers based on the TPT Disclosure Framework (UK TPT, 2023).

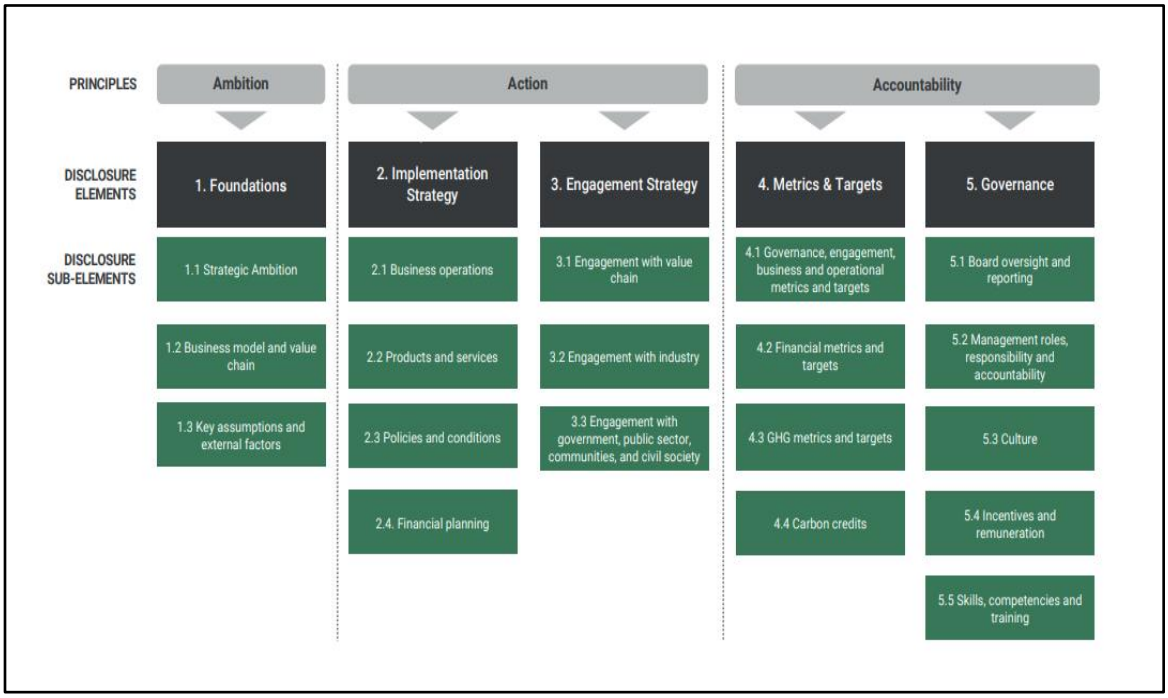
The TPT Disclosure Framework, along with its implementation and sectoral guidance, provides entities with resources to develop more credible and robust climate transition plans as part of their annual reporting on forward-looking business strategies. Notably, the UK's regulatory environment features a single regulator, in contrast to Canada's more complex system of province-based securities authorities. Nonetheless, their "gold standard" transition plan framework (see Figure 4) offers several best practices for regulators across jurisdictions to customize. In June of 2024, the ISSB announced it would take over responsibility for disclosure-specific NZTP materials developed by the TPT.

- **Foundations**: An entity shall disclose the Strategic Ambition of its plan. This shall comprise the entity's objectives and priorities for responding and contributing to the transition towards a low-GHG emissions, climate-resilient economy and set out whether and how the entity is pursuing these objectives and priorities in a manner that captures opportunities, avoids adverse impacts for stakeholders and society, and safeguards the natural environment. Under this element, an entity should also disclose the high-level

implications of this transition plan for its business model and value chain, as well as the key assumptions and external factors on which the plan depends.

- **Implementation strategy**: An entity shall disclose the actions it is taking within its business operations, products and services, and policies and conditions to achieve its Strategic Ambition, as well as the resulting implications for its financial position, financial performance, and cash flows.
- **Engagement strategy**: An entity shall disclose its approach to engaging with its value chain, industry peers, government, the public sector, communities and civil society to achieve its Strategic Ambition.
- **Metrics and targets**: An entity shall disclose the metrics and targets it uses to drive and monitor progress towards its Strategic Ambition.
  Governance: An entity shall disclose how it is embedding its transition plan within its governance structures and organizational arrangements to achieve the Strategic Ambition of its transition plan. Elaborating on these five underpinning elements, the UK TPT offers the Disclosure Framework, as captured in Figure 4 below. These principle-aligned sub-elements guide organizations in integrating their transition plans across the entire business, rather than approaching sustainability as a separate part of financial planning. Overall, the TPT refers to this as the "strategic and rounded approach" needed to decarbonize best, address climate-related risk and opportunity and support the global energy transition.

Figure 4: The TPT Disclosure Framework[4]



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