INDUSTRY FRAMEWORKS AND METRICS IN RELATION TO GREEN/TRANSITION FINANCE

December 2022

Contents

This chapter represents the output from the cross-industry Disclosures and Metrics Working Group of the Prudential Regulation Authority (PRA) and the Financial Conduct Authority's (FCA's) Climate Financial Risk Forum (CFRF). The document aims to review data around what frameworks and metrics are being used within the industry in relation to green/transition finance to help:

1) determine any emerging consistent approaches; and

2) draw conclusions as to what further work can be done to inform further development in this area.

This CFRF guide has been written by industry, for industry. The recommendations in this guide do not constitute financial or other professional advice and should not be relied upon as such. The PRA and FCA have convened and facilitated CFRF discussions but do not accept liability for the views expressed in this guide which do not necessarily represent the view of the regulators and in any case do not constitute regulatory guidance.

Any references to external organizations (e.g., case studies or examples) should not be interpreted as endorsement by CFRF and are only for case study purposes.

Acknowledgments

This paper was written by Sub-Group C of the (CFRF) Disclosures and Metrics Working Group Working Group, which includes asset managers, banks, insurers, building society, and asset owners.

It is largely written by practitioners, for practitioners. It sets out data around what frameworks and metrics are being used within the industry in relation to green/transition finance to help:

1) determine any emerging consistent approaches; and

2) draw conclusions as to what further work can be done to inform further development in this area.

The content is mainly based on responses from a survey circulated by the Sub-Group, but is directed broadly at financial industry participants.

Introduction

This Sub-Group has been focused on understanding what frameworks and metrics are being used within the industry in relation to green/transition finance to help:

1) determine any emerging consistent approaches; and

2) draw conclusions as to what further work can be done to inform further development in this area.

To support this, the Sub-Group circulated an internally developed survey in September-October 2022; responses were received from 21 participants. Appendix 1 sets out the anonymised responses to this survey.

In addition, the Sub-Group was also provided with various publicly available material, consisting of bespoke/internal ESG frameworks and examples of "green" products or transactions for a number of financial institutions. These are listed in Appendix 2.

The Intercontinental Exchange, Inc. ("**ICE**") has also provided the Sub-Group with additional data showing how various standards are used across green and sustainable bonds issued in 2022 (showing the percentage use of various standards from 1 December 2021 to 30 November 2022). It can be seen from this data that a large number of bonds are issued using multiple frameworks/standards; percentages for different combinations of standards are listed separately from the individual standards themselves. However, the Sub-Group understands that over 70% (by USD value) use standards created by the International Capital Market Association ("**ICMA**"). This data is set out in Appendix 3.

This paper contains three sections:

<u>Section 1</u> – sets out our observations around the survey data, in relation to the standards observed in the market;

<u>Section 2</u> – sets out the risks, uncertainties and challenges observed; and

<u>Section 3</u> – sets out our recommendations for next steps.

"<u>Prompts for Consideration</u>" contain open questions for the reader to reflect on as they engage with the contents of this paper.

The Sub-Group is aware that the Carbon Disclosure Project ("**CDP**") will also be publishing a questionnaire relating to sustainable finance taxonomies. We believe the CDP's questionnaire will complement the Sub-Group's findings and look forward to seeing its results. Extracts from a slide deck prepared by the CDP for the purposes of its questionnaire are appended to this paper.

Key findings

- It is clear from the data that firms currently use a range of different approaches, which largely stem from the market standards rather than from regulatory requirements.
- While the data gathered does not in and of itself point to a solution to the challenges identified by respondents, the preference of market standards (such as the Loan Market Association ("LMA") and ICMA) over the EU Taxonomy suggests that most respondents prefer a principles-based approach to a prescriptive framework (especially in the absence of verifiable granular data).
    - Please note the potential limitations set out in the section below. We also note that the use of these market standards may more generally reflect the nascent nature of regulatory standards in this area.
- The Sub-Group encourages public and private sector stakeholders to establish a universally-recognised set of standards.

Potential limitations

There were 21 respondents to a survey circulated by the Sub-Group in September-October 2022 (just over half of which were banks; the remainder were building societies, insurers, asset owners, and asset managers). The Sub-Group acknowledges that trends identified through its survey would therefore be focused on banks (as also evident from the amount of references to LMA standards), but believes it has sufficient data to observe trends in the wider industry. The full data set, consisting of the anonymised responses to the Sub-Group's survey, can be found in Appendix 1 to this report.

It is also noted that different frameworks are used for different purposes (e.g. ICMA Green Bond Principles would be used for issuances of green bonds, but would not be relevant for providing green mortgages). As such, certain standards may be over- or under-represented in the pool of respondents.

A further potential limitation of the survey stems from responses around the use of frameworks or taxonomies. As taxonomies relate to data structure and metrics requirements, they can be used within frameworks; a respondent may identify the use of a framework without also identifying the use of a taxonomy incorporated within that framework.

Section 1: What are the standards observed in the market?

The Sub-Group observed the prominence of the use of ICMA Green Bond Principles, LMA Green Loan Principles, and the United Nations Sustainable Development Goals (the "**SDGs**") as the framework for products labelled as "green". 12 of 21 respondents used the ICMA Green Bond Principles; the same number used the LMA Green Loan Principles; 11 used the SDGs.

In contrast, only a third of respondents used the EU Taxonomy (and only three respondents used the EU Green Bond Standard). The Sub-Group observes that this indicated a preference for principles-based approaches, rather than the prescriptiveness of the EU frameworks.

Use of internal / bespoke ESG frameworks

The Sub-Group also observed that firms see value in having a bespoke/internal ESG framework. Two thirds of respondents confirmed that they had such a framework in place (and one other respondent noted that they were in the process of developing one). However, one respondent commented that fear of greenwashing and misaligning with any eventual UK taxonomy limits their ability to push forward with a bespoke framework.
The Sub-Group was also provided with various publicly available material (listed in Appendix 2), consisting of bespoke/internal ESG frameworks and examples of "green" products or transactions for a number of financial institutions.

Uses of bespoke frameworks

Respondents provided a range of uses for their bespoke frameworks. The most common use was around tracking sustainable finance targets (or progress around climate governance), with six of 21 respondents noting this use. The second most common use was product design, flagged by four respondents. Two respondents noted their bespoke framework was used issuing green bonds; the same number used their bespoke framework for mandatory disclosure/reporting requirements.

Other reported uses included:

- transaction reviewing;
- product and transaction labelling;
- bondholder stewardship; and
- tracking/grading bond issuances.

From a review of the responses, as well as publicly available frameworks provided to the Sub-Group, an equal number of bespoke frameworks (eight) appear draw from the ICMA Green Bond Principles and the EU Taxonomy. Seven frameworks referred to the SDGs.
Four frameworks referred to each of the Climate Bond Initiative Standards and the LMA Green Loan Principles. Other respondents noted that their bespoke frameworks draw from the:

- ICMA Sustainability Linked Bond Principles;
- Cambridge Institute for Sustainability Leadership (CISL) "ClimateWise" framework
- ICMA Transition Finance Handbook.

To illustrate the above:

- A respondent international bank provided the Sub-Group with their bespoke framework, which is primarily based on the SGDs – selecting six of the 17 development goals to be reflected in their business model and growth strategy as a "priority", with a further two goals as "core impact areas". It is noted within the framework that while primarily based on the SDGs, it is developed in line with other methodologies, including the ICMA Green Bond Principles, the LMA Green Loan Principles, the EU Taxonomy, and the Climate Bonds Initiative Standards. The bank uses this framework for mandatory disclosures, product design, and tracking of sustainable finance targets.
- A respondent UK bank provided a bespoke framework based on ICMA guidance – it is derived from the Green Bond Principles, Social Bond Principles, and Sustainability Bond Guidelines. The bank uses this framework for product design: three types of bonds (Green, Social, and Sustainability) can be issued under its framework, which has four key components – use of proceeds, project evaluation and selection, management of proceeds, and reporting.
- A respondent insurer provided a framework derived from ICMA Green Bond Principles (and Social Bond Principles); however, its framework has also explicitly taken into account the SDGs and the EU Taxonomy. The framework is used for tracking sustainable financing targets.

Prompt for Consideration:
Do you have a bespoke framework? If so, what do you think are its benefits? Is there a particular gap which the bespoke framework aims to address?

EU Taxonomy in bespoke frameworks

As noted above, where respondents also explained what their bespoke frameworks were based on, the EU Taxonomy was frequently mentioned. Of 14 respondents with bespoke frameworks, six noted their framework refers to or aligns with the EU Taxonomy[1] – which is perhaps surprising given that only seven of 21 respondents noted the use of the EU Taxonomy more generally. It was also noted that Sustainalytics refers to the EU Taxonomy criteria, so any bespoke framework reviewed by Sustainalytics as a third party would have indirectly considered the EU Taxonomy.

From a review of publicly available frameworks provided to the Sub-Group, we observed that two European banks referred to the EU Taxonomy (alongside other frameworks) in their bespoke frameworks. One of these two banks derived certain of its eligibility criteria from specific requirements of the EU taxonomy (around the circular economy objective, energy efficiency, and transport standards); the second of the two banks factored the EU Taxonomy into its consideration of sectors which were "eligible" under its framework (but noted that EU initiatives around green/sustainable finance were ongoing).

Unfortunately, the majority of respondents who noted their bespoke framework refers to the EU Taxonomy did not have a publicly available framework they could direct the Sub-Group to, such that the discrepancy between its prevalence in bespoke frameworks (six of 14) and its lack of popularity amongst respondents more generally (seven of 21) could not be investigated further.

[1] **NB**: This figure is based only on the participants' responses to the survey, and not from a further review of public methodologies provided to the Sub-Group.

Prompt for Consideration:
If you have a bespoke framework, does it incorporate the EU Taxonomy?
If so, how is the EU Taxonomy incorporated into your bespoke framework? Is it the only ESG framework reflected, or is your bespoke framework derived from multiple sources?

SFDR in bespoke frameworks

Of the 14 respondents with bespoke frameworks, only two use definitions from Articles 8 or 9 of the SFDR (and a further two aimed to implement them in the future). The Sub-Group concluded that this may be because asset managers were under-represented in the data set (only two respondents were asset managers – both of which mentioned SFDR in their responses).

Transition frameworks

In relation to transition frameworks, these appear to be less commonly used – only four respondents confirmed their use of external transition frameworks, and only five confirmed their use of internal/bespoke transition frameworks (with another respondent noting that they were in the process of creating one).

It appears to the Sub-Group that transition frameworks are still a nascent area, though firms seeing value in both external and internal frameworks seems to be a common trend.

Use of established ESG frameworks

The frameworks which respondents to the survey indicated they used for products labelled as "green"[2] were as follows:

ESG Framework	Summary of Framework	Number of respondents citing	
ICMA Green Bond Principles	The ICMA Green Bond Principles are voluntary guidelines for issuing green bonds, published by the International Capital Market Association. These guidelines seek to support issuers in financing environmentally sound and sustainable projects that foster a net-zero emissions economy and protect the environment, based on increasing transparency around green credentials.	12	57%
LMA Green Loan Principles	The LMA Green Loan Principles are a set of voluntary guidelines issued by the Loan Market Association with the aim of creating a framework of market standards and guidelines (to be applied on a deal-by-deal basis) to provide a consistent methodology for use across the green loan market (i.e. for loan instruments made available to finance or refinance eligible "green" projects).	12	57%
SDGs	The SDGs are a collection of 17 interlinked global goals set up by the United Nations General Assembly in 2015 with the intention of being achieved by 2030. They aim to be a "shared blueprint for peace and prosperity for people and the planet", recognising the interconnectedness between ending poverty (and other deprivations), improving health and education, reducing inequality, spurring economic growth, and tackling climate change.[3]	11	52%
Climate Bonds Initiative	The Climate Bonds Initiative is an international organisation that	7	33%

[2] Some survey responses also noted the ICMA Social Bond Principles and LMA Social Loan Principles. We note these here for completeness, but we do not strictly view these as "green" ESG frameworks, given their focus on *social* benefits.
[3] One response also cited the SDG Impact Assessment, which is an online tool created by the Gothenburg Centre for Sustainable Development, which visualises the results of a self-assessment of how an activity, organisation, or innovation affects the SDGs.

Standards	aims to promote investment in projects and assets necessary for a rapid transition to a low carbon and climate resilient economy. Its Climate Bonds Standard is a labelling scheme for bonds, designed to assist investors and governments in prioritising investments that contribute to addressing climate change.		
EU Taxonomy	The EU Taxonomy for sustainable activities is a classification system, establishing a list of environmentally sustainable economic activities. It aims to provide companies, investors, and policymakers with appropriate definitions for which economic activities can be considered economically sustainable, so as to help investors make greener choices and to prevent greenwashing.	**7**	**33%**
EU Green Bond Standard	The EU Green Bond Standard is a voluntary standard, proposed as part of the EU's agenda on sustainable finance, based on recommendations of a Technical Expect Group on Sustainable Finance. It aims to set a "gold standard" for how companies and public authorities can use green bonds to raise funds on capital markets to finance large-scale investments while meeting sustainability requirements and protecting investors.	**3**	**14%**
ICMA Sustainability Linked Bond Principles	The ICMA Sustainability Linked Bond Principles are voluntary guidelines published by the International Capital Market Association. These guidelines aim to develop the role that debt markets play in funding and encouraging companies that contribute to sustainability, by recommending guidelines around structuring features, disclosure, and reporting.	**1**	**5%**
ICMA Transition Finance Handbook	The Climate Transition Finance Handbook is guidance published by the International Capital Market Association with the aim of facilitating financing from investors to issuers wishing to address climate change risk issues. This guidance seeks to create common expectations on practices, actions, and disclosures to be made when raising funds in debt markets for climate transition-related purposes.	**1**	**5%**
OECD Guidelines	The OECD Guidelines for Multinational Enterprises are recommendations addressed by governments to multinational enterprises, with the aim of ensuring that these enterprises operate in harmony with government policies, strengthening the basis of mutual confidence between enterprises and the societies in which they operate, helping improve the foreign investment climate, and enhancing the contribution to sustainable development made by multinational enterprises. They provide non-binding principles and standards for responsible business conduct in a global context consistent with applicable laws and internationally recognised standards.	**1**	**5%**
UK Government Net Zero Strategy	The UK Government's Net Zero Strategy sets out policies and proposals for decarbonising all sectors of the UK economy.	**1**	**5%**

Section 2: What were the key risks and uncertainties observed?

Respondents to the survey were asked to share any challenges they identified when implementing green/transition finance frameworks. Their responses can be found in Appendix 1 to this paper.

Though a range of responses have been received, a number of key themes emerge from these.

Data quality issues

A common concern is around the quality, availability, and consistency of sufficiently granular data around "green" metrics. In particular, some projects may be identified as "green" based on market frameworks, but data-based thresholds within the relevant activities can be less clear. Risks raised include uncertainties around whether data is consistent across providers, how to verify the accuracy of data and whether there would be set criteria around how data is measured. It should be noted that much of the concern in this area may relate to use of proceeds financing. Similar issues apply to transition financing and sustainability-linked financing, albeit they are broader in scope.

In this respect, the Sub-Group notes the October 2022 recommendations on data and usability by the EU Platform on Sustainable Finance ("**PSF**"), which identifies that 41% of tests determining compliance with "Do No Significant Harm" rely on "Type D" criteria (criteria which depend on EU-only legislation). The PSF comments that these criteria are "*not recommendable from a usability perspective*", particularly for non-EU use cases. A further 9% refer to "Type E" criteria (state ambitions), "*which cannot be assessed*". The PSF concludes that "*in its current form, some of the DNSH testing criteria create substantial interpretation and usability challenges. If left unaddressed, this could impact the goal of generating complete, comparable, and reliable disclosure*."

Lack of a single universal standard

Another risk identified stems from the lack of a single accepted ESG standard – respondents identified that there are multiple market and regulatory standards, with no one standard being globally consistent. This creates a risk of diverging rules emerging in various jurisdictions, and can lead to confusion from both firms and their customers/investors around the environmental impact of their decisions.

The Sub-Group notes that different frameworks have different use cases, but nonetheless notes that confusion may be caused when multiple frameworks exist for the same (or for an overlapping) purpose, and particularly where key, widely-applicable terms are defined differently. There is already some unease created by the absence of a single universal definition for what constitutes "green" (or "transition") finance. Respondents also highlight that any labels or taxonomies need to be clearly understandable (especially by retail consumers), to avoid the risk of inadvertent greenwashing.

One example of differing approaches to "green" labels that was identified by the Sub-Group related to special purpose vehicles which invested in areas which one would typically consider to be "green", such as renewable energy. It would seem logical for ESG frameworks to label such investments as sustainable. However, under the SFDR (for instance), that would only be possible if they produced specified categories of data which they would not otherwise be producing (and if they did, they would be unable to meet relevant thresholds), such as gender pay gap data. We consider this would place undesirable limitations on opportunities to finance such activities, and could be seen as punishing financing of green assets when similar requirements do not apply for general financing.

Following the survey conducted by the Sub-Group, the FCA launched a consultation on sustainability disclosure requirements and investment labels (the "**SDR Consultation**") – demonstrating how rapidly the area of green/sustainable finance is evolving. However, given the timing in question, respondents to the survey did not have the opportunity to comment on the SDR Consultation for the purposes of this paper.

Prompt for Consideration: **When you define "green" finance, would you consider that it should encompass other broader areas of sustainability?**

Section 3: How can these concerns be addressed?

It is clear from the data that firms currently use a range of different of approaches, which largely stem from the market rather than from regulation (noting, for example, the prevalence of ICMA and LMA standards). While the data set does not in and of itself point to a solution to the challenges identified by respondents, the preference of these market standards over the EU Taxonomy clearly shows that most respondents prefer a principles-based approach to a prescriptive framework (especially in the absence of verifiable granular data).

It has been suggested that a liability safe harbour, similar to the US safe harbour for forward-looking statements, but adapted to cover data challenges, emissions estimates, and reliance on proxy/third party data, would address the concerns identified in this paper, as well as facilitate the policy objectives of early climate disclosures.

Ongoing collaboration

Though the Sub-Group recognises the magnitude of the task, it encourages regulators and trade associations to work together (and in consultation with firms in the market) to establish a universally-recognised framework or set of standards. We believe that a good approach for such standards would be for them to:

- be in line with internationally-recognised standards, such as the SDGs;
- set clear parameters and definitions for key concepts; and
- be easily understandable by all parties (firms, professional investors, and retail customers).

The Sub-Group hopes that the themes identified by this survey will be of assistance to industry bodies in their discussions with their members and in their engagement with regulatory bodies.

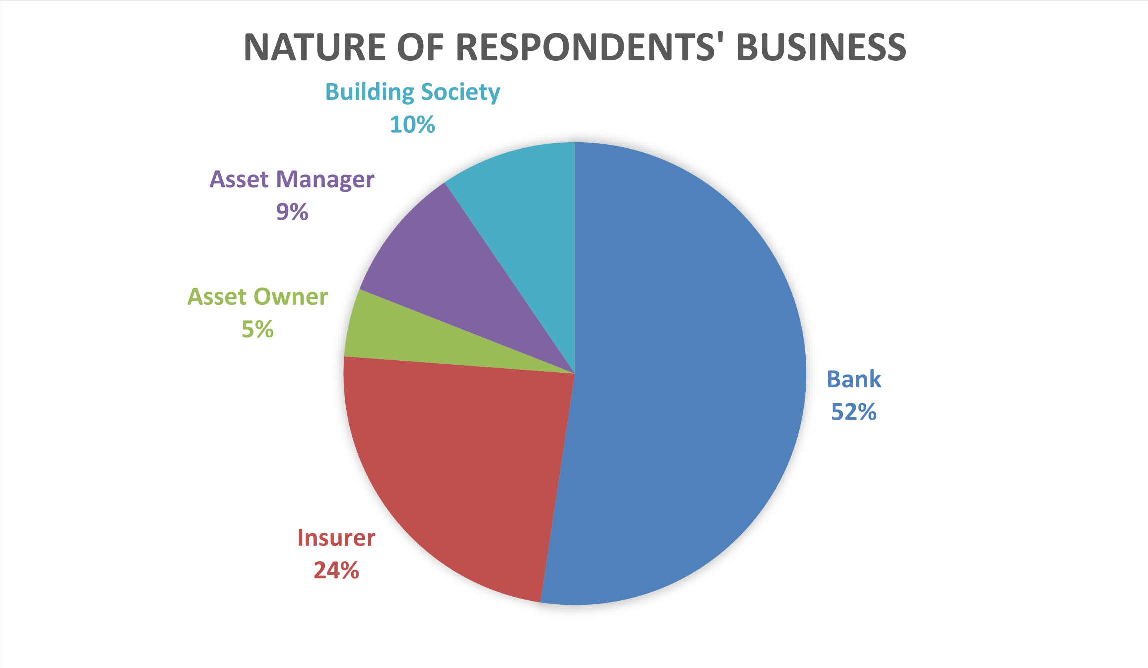
FCA consideration of insights

The Sub-Group encourages the FCA to consider the themes identified in this paper for the purposes of the SDR Consultation and development of the UK sustainability disclosure requirements framework.

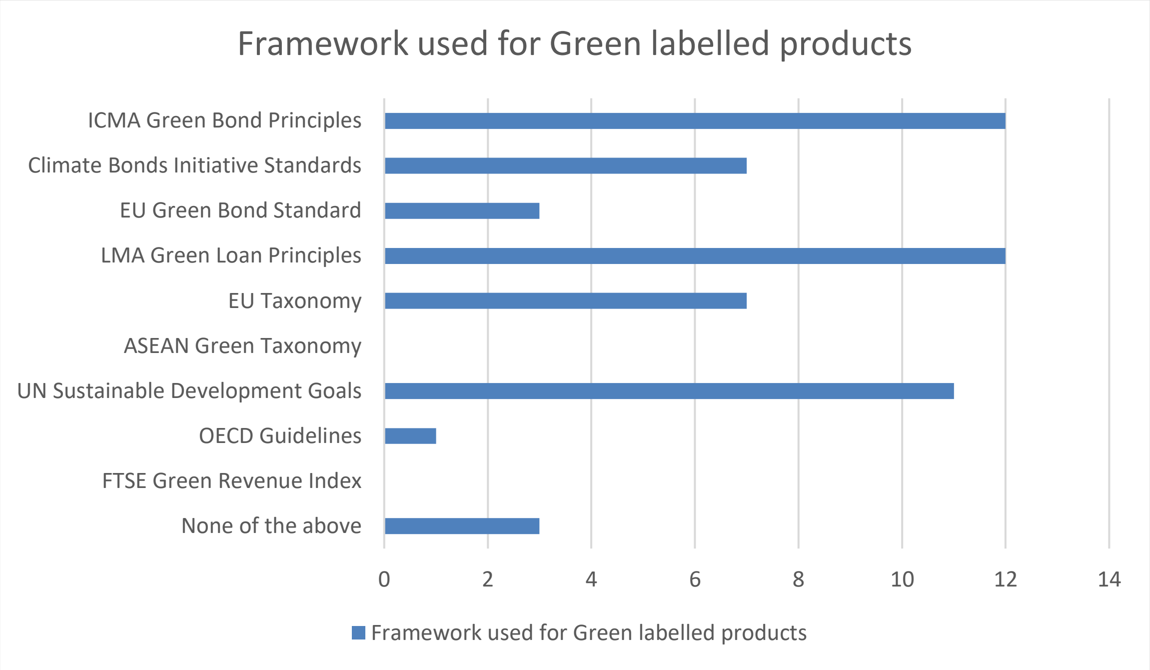
Appendix 1: Survey data

The below sets out the (anonymised) responses received from 21 respondents to a survey circulated by Sub-Group C of the Disclosures and Metrics Working Group in September-October 2022. Data from this survey underlies the preceding report.

Responses to Question 1: Nature of business



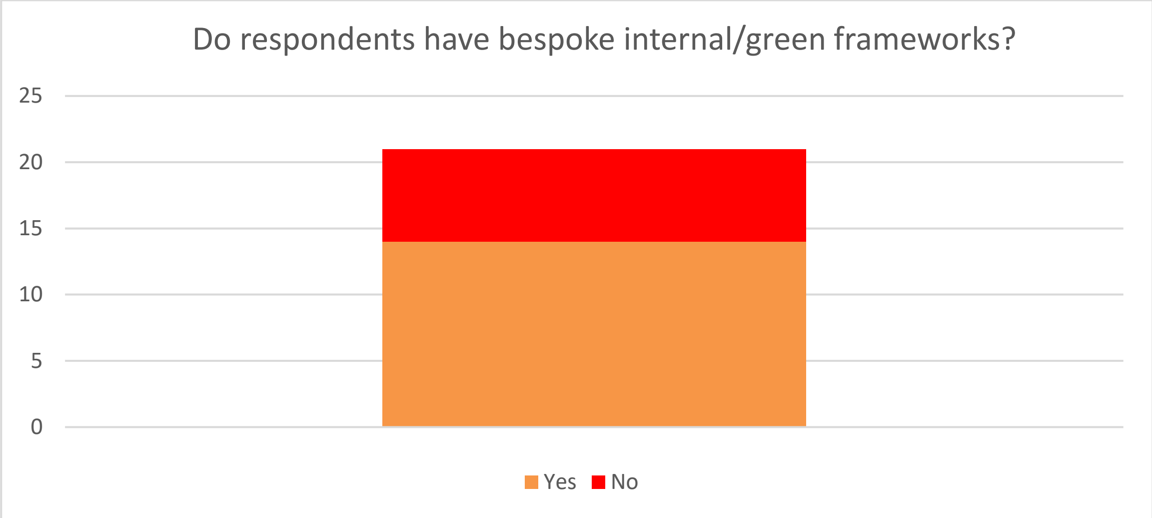
Responses to Question 2: Framework used

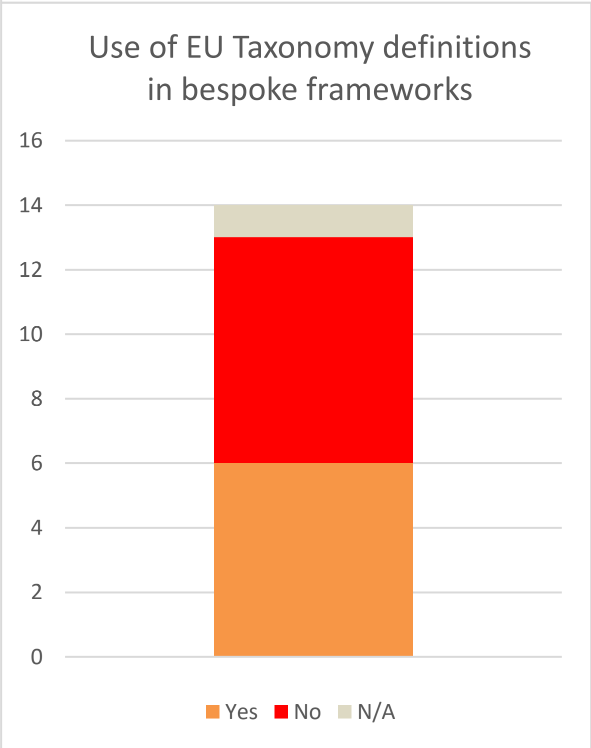


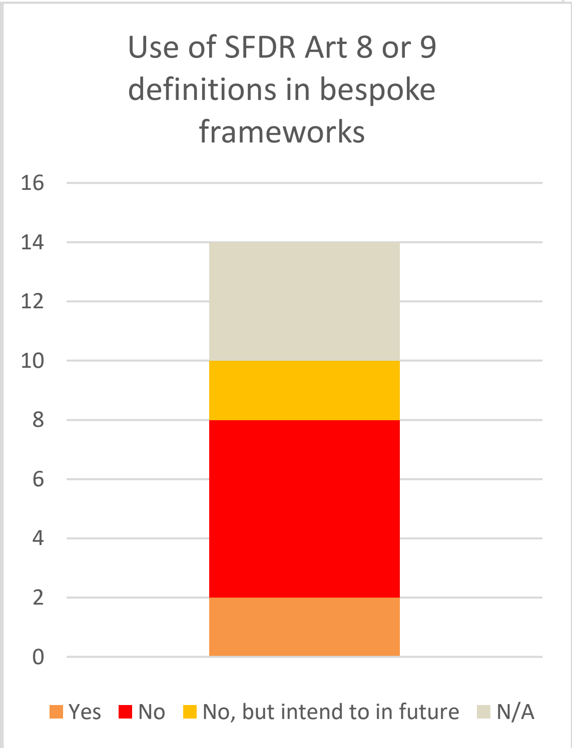
Five respondents provided further information:

- One respondent uses ICMA for its wholesale proposition's Green Bond Framework; it does not use any of the above for its retail propositions.
- Another respondent offered ICMA and LMA options not listed above:
    - ICMA Social Bond Principles;
    - ICMA Transition Finance Handbook;
    - ICMA Sustainability Linked Bond Principles;
    - LMA Social Loan Principles.
- An asset manager respondent clarified that they do not label their products as "Green", but rather claim to be a sustainability-focused asset manager, with UCITS [Undertakings for the Collective Investment in Transferable Securities] classified as Article 8 or 9 under SFDR [Sustainable Finance Disclosure Regulation].
- A respondent bank noted that they only have a range of green mortgages, which require the property to have an EPC [Energy Performance Certificate] rating of C or above. This is based on the UK Government Net Zero Strategy and the intention to have the majority of properties have an EPC rating of C by 2035.
- One respondent provided a breakdown of framework use:
    - ICMA Green Bond Principles are the most used, and preferred by clients;
    - Climate Bonds Initiative Standards are used for their own issuances;
    - EU Green Bond Standard is used on a voluntary basis, subject to the client's appetite;
    - LMA Green Loan Principles are used (but the respondent did not provide further details);
    - UN Sustainable Development Goals are used as a screen for internal products; and
    - SDG Impact Assessment (not in the chart above) is used as a macro reference (rather than a product label).

Responses to Questions 3-8: Bespoke internal frameworks







<u>Respondent insurer</u>

Their frameworks are derived from the ICMA Green Bond Principles and the LMA Green Loan Principles, and are used for tracking of sustainable financing targets.

<u>Respondent insurer</u>

Their framework is aligned to the Cambridge Institute for Sustainability Leadership (CISL) "ClimateWise" framework, and is loosely based on the TCFD [Taskforce on Climate-related Financial Disclosures] guidelines. A framework on the underwriting side, based on PSI's materiality framework and SASB's materiality map, is under development. Their framework is used to track progress around climate governance and risk.

Respondent insurer

Another respondent commented that fear of greenwashing and misaligning with any eventual UK taxonomy limits their ability to push forward with a bespoke/internal framework. They noted that their asset manager sells to independent clients and their subsidiary in the EU (via Ireland), and so aligns with EU taxonomy.

Respondent building society

A respondent building society noted that its bespoke framework is currently in development.

Respondent building society

One respondent flagged that its existing product design framework was uplifted to include green considerations, its risk management approach aligned to SS 3/19 requirements, and disclosures aligned to TCFD principles. Its carbon accounting uses PCAF [Partnership for Carbon Accounting Financials] and SBTi [Science Based Targets initiative] frameworks.

Respondent asset manager

A respondent asset manager noted that they use a thematic approach to identify today's mega-trends such as health, safe mobility and clean energy. For each theme, they seek to identify the challenge, the solution, and then the products and services that can deliver positive solutions and opportunity. They then target "best in class" businesses from a global universe, who can deliver sustainable financial returns, operational excellence and positive impact through their products or services. Finally, they engage with companies to drive positive change and enhance shareholder value. Their framework is based on UN Sustainable Development Goals, but will also have to use EU SFDR/Taxonomy definitions in the future, and is used for SFDR disclosures. There was no public example of a green assessment they could point to.

Respondent asset manager

In response to what their internal framework is based on, one respondent noted that it would vary depending on asset class/product (e.g. SDGs, Taxonomy, SFDR). The use of their framework would similarly vary depending on asset class/product (disclosure, product design, investment decisions).

Respondent bank

Their framework refers to the EU Taxonomy (eligible sectors) and to another internal framework for managing environmental, social and governance risks. They use their framework to issue green bonds. Their global markets teams may structure derivatives products that use Article 8 & 9 funds.

Respondent bank

Their framework is based on the UN Sustainable Development Goals, and is used for mandatory disclosures, product design, and tracking of sustainable finance targets.

Respondent bank

Their framework is used for product design.

Respondent bank

Their framework is based on the UN Sustainable Development Goals and is used for product design.

Respondent bank

Their framework is based on the on the EU Taxonomy and is used for tracking sustainable finance targets.

Respondent bank

Their internal framework is informed by the standards and external frameworks referred to in Question 2, and is used for transaction review and product/transaction labelling. The respondent bank is not subject to the EU Taxonomy-related requirements on a consolidated basis; however, its internal green and sustainable products framework is subject to review by a third party (Sustainalytics) which often refers to the EU Taxonomy criteria as a benchmark.

Respondent bank

The respondent commented that their internal framework is based on:

- ICMA Green Bond Principles;
- Climate Bonds Initiative
- ICMA Climate Transition Finance Handbook;
- LMA Green Loan Principles;
- ICMA Social Bond Principles;
- ICMA Sustainability Linked Bond Principles;
- LMA Social Loan Principles; and
- UN Sustainable Development Goals.

Their frameworks are used for:

- Product design;
- Sustainable Finance and Investment targets; and
- Green and SDG bond issuance.

The EU Taxonomy is based on EU regulation which does not apply to the respondent at the Group level; however, European subsidiaries use the EU Taxonomy for mandatory reporting requirements.

Respondent bank

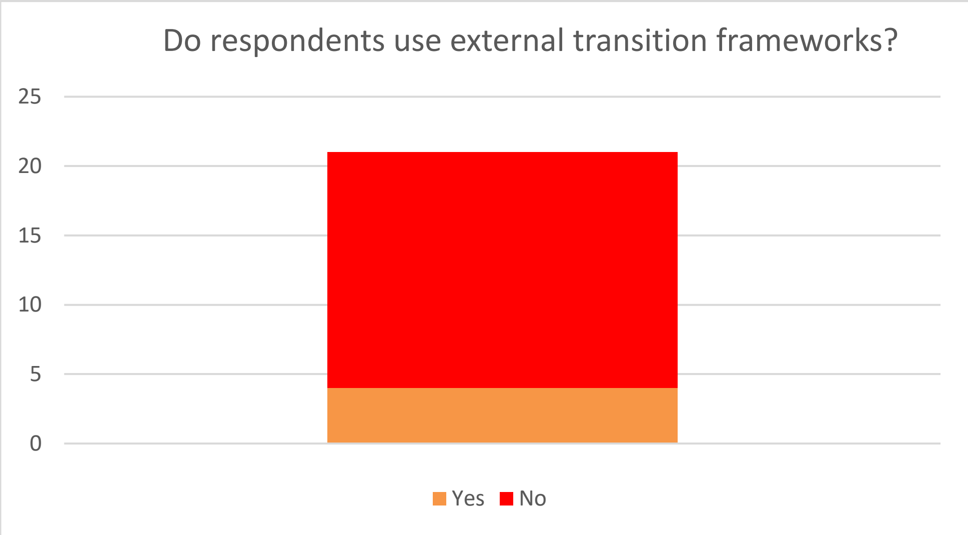
The respondent bank explained that their Sustainable Finance Framework provides clear social and environmental inclusion criteria to track and categorise financing volumes, including both labelled green and social transactions and a wider “use of proceeds” analysis against eligible social and environmental themes. It covers eligibility criteria, product scope and accounting basis. This framework is used to classify labelled and unlabelled financing transactions against their external sustainable and green financing targets. To support issuance programmes from Treasury, the respondent bank has a Green Issuance Framework that sets out eligibility criteria and processes to meet the GBP requirements. This supports issuing Green financing, a Green Structured Note and Green Commercial Paper out of their group entities.

Respondents with bespoke frameworks which were not public

Two further respondents noted that their framework was not publicly available – they did, however, note what their frameworks were derived from:

- one was derived from the EU Taxonomy and ICMA Green Bond Principles and used its framework for tracking of sustainable finance targets; and
- the other was derived from the Green Bond Principles, the SLB [Sustainability Linked Bond] framework, the UoP [Use of Proceeds] Framework and Transition Finance Framework, and the EU Taxonomy – Enel and Repsol were identified as public examples of transactions assessed as green, and the framework was used for bondholder stewardship and for tracking and grading bond issuances.

Responses to Question 9: External transition frameworks

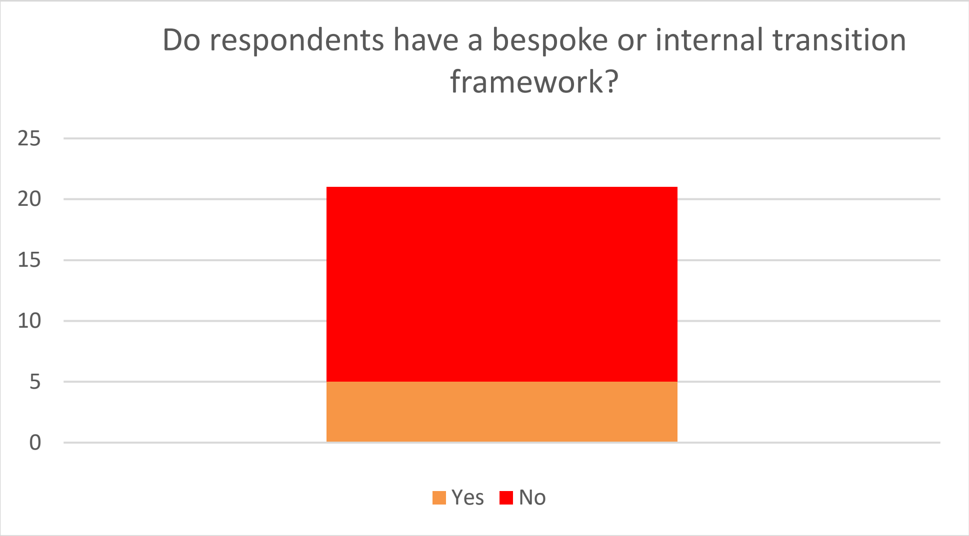


One respondent noted that they were unsure of what was meant by "external transition finance frameworks", but that they were signed up to the Paris Aligned Asset Initiative climate commitments.

Other respondents clarified their responses:

- A respondent bank noted that their approach is based upon the IEA [International Energy Agency] Net Zero Emission and has been informed by the best currently available information, including the Climate Bonds Initiative White Paper and Discussion Paper, the EU Sustainable Finance Taxonomy and Consultation Report on Taxonomy Extension Options, and our own sectoral Transition Playbooks.
- Another bank responded that it uses the ICMA Transition Finance Handbook.
- A further bank responded that the NZBA will be launching a transition framework that the respondent bank is considering incorporating into its framework. In addition, South Africa has launched a green finance taxonomy that the bank is also in the process of incorporating into its sustainable finance framework.
- Another respondent flagged their use of CA100+ (and TPT [UK Transition Plan Taskforce] when it is published).
- One respondent noted their use of Basic Guidelines on Climate Transition Finance issued by the Japanese Ministry of Economy, Trade and Industry, and of LSTA [Loan Syndications and Trading Association] Sustainability-Linked Loan Principles.
- A respondent bank explained that they are not currently using any, but they are aware of such frameworks. The ones they are aware of are principles-based and not sufficiently detailed, and they note specifically that they find the ICMA transition finance handbook to be very high level. The bank is also aware of the Japanese transition framework.

Responses to Questions 10-12: Bespoke internal transition frameworks



One respondent expressed that they did not feel the question was sufficiently clear.

Respondent asset owner

The respondent uses a proprietary Climate Risk and Net Zero Alignment Assessment (CRIANZA) Framework. NextEra Energy has been assessed as transition financing based on this framework, which is used for their Company Alignment Assessment to Net Zero.

Respondent building society

The respondent explained that their existing product development framework was uplifted to include green considerations. This approach was followed in the creation of the below retail products, which have been assessed as transition financing based on this framework:

- Green Additional Borrowing mortgage;
- Green Reward mortgage;
- Green Further Advance for TMW [The Mortgage Works]; and
- RSL Sustainability linked loans.
-

This framework supports mandatory disclosures, product design, and progress towards sustainable targets (i.e. MGC[4] and ultimately SBTi). It encourages sustainable, transition friendly finance within their Registered Social Landlord ("**RSL**") portfolio.

Respondent bank

One respondent flagged that they were in the process of creating this framework.

Respondent bank

Another respondent bank flagged that they use such a framework for transaction review and product/transaction labelling.

[4] Editor's note: understood to be a reference to MSCI (the "MSCI Factor ESG Target Indexes" designed by MSCI Inc.)

Responses to Question 12 only

Two respondents only provided responses to Question 12:

- one uses this framework for disclosure and target tracking; and
- one has followed the TCFD framework for their climate change risk related disclosures since 2019

Responses to Question 13: Challenges identified when implementing green finance or transition finance frameworks

- **Respondent A**: Balancing methodology that is robust/works for us with one that is externally recognised for credibility. Data challenges were also identified.
- **Respondent B**: Despite offering discount rates for green propositions, there is a general lack of demand; there is also a reliance on future government policy changes to create an environment where decarbonising UK housing makes financial sense for customers.
- **Respondent C**:
    - Availability and consistency of data.
    - Consistency of third-party data.
    - Agreement on international standards.
- **Respondent D**: Lack of agreed definitions of green and transition finance; multiple market and regulatory standards.
- **Respondent E**:
    - Current market definitions of “green” and “sustainable” finance are broad and can introduce “greenwashing” risks. While more detailed criteria are emerging, these are not yet market standard or globally consistent.
    - Transition projects are highly specific to geography and sector, which can make it difficult to develop a holistic framework.
    - Availability and tracking of data for (i) facilities, where key data points may not be available at time of origination, (ii) granular impact data, which would allow us to quantify the emission reduction impact of our activities.
    - Investments in technology required for data capture and reporting purposes.
- **Respondent F**:
    - Consistency concerns across providers.
    - The need to provide “insight” to policyholders (customers).
    - The need to avoid dubious labels, i.e. labels that are either too easily misunderstood by retail (or professional!) investors or which simply misrepresent underlying assets.
- **Respondent G**: The nature of our banking business means that our balance sheet exposures are mainly interbank and short term in nature. This makes it difficult to understand their impact on the environment and how to transition to net zero. On the asset management side we only invest in listed securities.
- **Respondent H**: Different requirements and taxonomies across developing and developed countries.
- **Respondent I**: Lack of consistency across issuances especially between issuer’s corporate profile and targets and green bond issuance detail and targets.
- **Respondent J**: Data collection, data verification, data measurement criteria, and value chain.
- **Respondent K**: Data collection from the lending books (e.g. EPC).
- **Respondent L**: There are no authoritative green finance or transition finance frameworks. We see a number of initiatives at the moment, which we are analysing.

- **Respondent M**:
  - Currently, transition finance frameworks are principles based but do not provide clear assessment criteria and metrics without clear decarbonisation milestones.
    - Government policy clarity would be valuable when it comes to defining “transition financing” and “greening finance”.
  - Taxonomies are both used for disclosures and product design but only focused on use of proceeds products.
  - A broader framework is needed to cover for entity level screening (what is a transitioning entity versus a green entity).
  - Interoperability across the different frameworks is an issue.
    - As major jurisdictions are moving at different speeds, a risk of fragmentation and diverging rules may emerge.
    - Lack of common definitions makes it difficult for companies and investors to clearly understand the environmental impact of their decisions and can lead to consumer harms like greenwashing.
    - This is particularly concerning for banks with a global presence.
    - We encourage the UK government to maintain lines of communications and co-operation with international partners and regulatory authorities in different jurisdictions and at the supra national level.
  - EU - Do No Significant Harm (DNSH) & Minimum Safeguard Standards implementation challenges, particularly with the EU Legislative focus.
    - An overly prescriptive Do No Significant Harm approach, compounded by a lack of available granular data, means that it is very challenging to achieve Taxonomy alignment. To resolve this, we would favour a principles-based DNSH approach.
  - EU – the introduction of the Green Asset Ratio (GAR) through Article 8 of the EU Taxonomy Regulation poses both operational challenges for banks to report and is potentially misleading for investors. This is primarily because the ratio (the denominator) includes asset classes that will never be taxonomy aligned. In essence, there is a mismatch between the numerator and denominator. Therefore, the resulting reportable metrics are primarily driven by the operating model of the bank, rather than accurately highlighting taxonomy aligned financing activities. To avoid this, we recommend that the Government ensures that the reporting metrics are consistent and include transition activities. This would also help support the UK Government’s Energy Security Strategy.
  - A clear sense of consumer understanding of the use of green and transition taxonomies is needed, particularly for retail customers.

Appendix 2: Publicly available bespoke/internal frameworks and "green" products/transaction

The Sub-Group was provided with various publicly available material, consisting of bespoke/internal ESG frameworks and examples of "green" products or transactions for a number of financial institutions.

- **Barclays**: public green transactions can be found here.
- **BNP Paribas**:
    - Green Bond Framework.
    - BNP Paribas disclose information on the green bonds that they have issued for their own account, available here.
    - BNP Paribas' first report (published in May 2022) in relation to their commitment to the Net-Zero Banking Alliance ("**NZBA**") initiative, evidences the NZBA's utility in transitioning to a more sustainable finance model.
- **Investec**:
    - Group Sustainable Finance Framework.
    - Public examples of green assessments can be seen in this press release.
- **Just**: Sustainability Bond Framework.
- **HSBC**:
    - Sustainable Finance and Investment Ambition – Data Dictionary.
    - Green Bond Framework.
    - Sustainable Development Goals Bond Framework.
    - Public examples of green assessments can be found in HSBC's annual report:
        - HSBC acted as a joint bookrunner for Air Liquide Finance's inaugural green bond and helped them to raise €500m, which will be dedicated to eligible sustainable projects including hydrogen, biogas, carbon capture, air gases, energy efficiency and green buildings in accordance with its sustainable finance framework.
        - Greece's largest power producer issued a €650m high-yield sustainability-linked bond – HSBC acted as joint global coordinator and left-lead bookrunner on the bond, which committed Public Power Corporation to reducing its carbon emissions by 40% by the end of 2022, or face higher financing costs.
        - HSBC supported Ford as it extended its revolving credit facilities worth a combined $15.5bn. Ford amended the credit facilities to include sustainability-linked targets, which included lower emissions from global manufacturing facilities and reduced exhaust emissions from passenger vehicles sold in Europe.
- **Liberty**:
    - Bespoke framework in 2022 ClimateWise Report.
    - Examples of transactions assessed as "green" can be seen in this brochure.
- **NatWest**:
    - Their landing page for Green, Social, and Sustainability Bonds includes their GSS Framework and supporting materials:
        - This press release contains related information.
    - Use of Proceeds/impact reports are available on NatWest's website.

- **Norinchukin**:
    - Green Bond Framework.
    - Norinchukin's Focus Area 1 contains examples of transactions assessed as "green".
- **Santander**: Sustainable Finance Classification System.

- **Standard Chartered**:
  - Approach to sustainability.
  - Green and Sustainable Product Framework.
  - Sustainability Bond Framework.
  - Transition Finance Imperative.
  - In 2021, Standard Chartered launched 16 new sustainable finance products, such as sustainable trade finance (see the press releases on their Sustainable Account and Sustainable Export Letter of Credit programme as examples).
  - Standard Chartered plan to mobilise USD300 billion in green and transition finance by the end of this decade (see news article on the Holcim Group facility as an example).

Appendix 3: 2022 ICE data

Standard used	Percentage use
ASEAN Capital Markets Forum (ACMF)	0.01%
ASEAN Capital Markets Forum (ACMF), ICMA Bonds Principles	0.01%
ASEAN Capital Markets Forum (ACMF), ICMA Bonds Principles, EU Green Bond Standard	0.14%
ASEAN Capital Markets Forum (ACMF), ICMA Bonds Principles, LMA Loan Principles	0.00%
CBI Climate Bonds Standards	0.64%
CBI Climate Bonds Standards, ICMA Bonds Principles	0.10%
CBI Climate Bonds Standards, ICMA Bonds Principles, EU Green Bond Standard, EU Taxonomy	0.02%
CBI Climate Bonds Standards, ICMA Bonds Principles, PBOC - Green Bond Endorsed Project Catalogue	0.49%
CBI Climate Bonds Standards, Other	0.07%
CBI Climate Bonds Standards, PBOC - Green Bond Endorsed Project Catalogue	0.03%
CBI Climate Bonds Standards, PBOC - Green Bond Endorsed Project Catalogue, ICMA Bonds Principles	0.09%
CBI Climate Bonds Standards, UN Sustainable Development Goals	0.01%
EU Green Bond Standard	0.99%
EU Green Bond Standard, EU Taxonomy, ICMA Bonds Principles	0.17%
EU Green Bond Standard, ICMA Bonds Principles	0.84%
EU Taxonomy	3.11%
EU Taxonomy, EU Green Bond Standard, ICMA Bonds Principles	0.04%
ICMA Bonds Principles	56.45%
ICMA Bonds Principles, ASEAN Capital Markets Forum (ACMF)	0.42%
ICMA Bonds Principles, ASEAN Capital Markets Forum (ACMF), LMA Loan Principles	0.07%

ICMA Bonds Principles, CBI Climate Bonds Standards	0.30%
ICMA Bonds Principles, CBI Climate Bonds Standards, EU Green Bond Standard	0.31%
ICMA Bonds Principles, CBI Climate Bonds Standards, PBOC - Green Bond Endorsed Project Catalogue	0.03%
ICMA Bonds Principles, CBI Climate Bonds Standards, PBOC - Green Bond Endorsed Project Catalogue, Other, LMA Loan Principles	0.07%
ICMA Bonds Principles, CBI Climate Bonds Standards, UN Sustainable Development Goals, EU Green Bond Standard	0.00%
ICMA Bonds Principles, EU Green Bond Standard	2.13%
ICMA Bonds Principles, EU Green Bond Standard, CBI Climate Bonds Standards	0.07%
ICMA Bonds Principles, EU Green Bond Standard, EU Taxonomy	1.38%
ICMA Bonds Principles, EU Green Bond Standard, EU Taxonomy, UN Sustainable Development Goals	0.00%
ICMA Bonds Principles, EU Green Bond Standard, LMA Loan Principles	0.00%
ICMA Bonds Principles, EU Green Bond Standard, Other	0.28%
ICMA Bonds Principles, EU Green Bond Standard, Other, EU Taxonomy	0.00%
ICMA Bonds Principles, EU Green Bond Standard, Other, UN Sustainable Development Goals	0.09%
ICMA Bonds Principles, EU Taxonomy	1.44%
ICMA Bonds Principles, EU Taxonomy, EU Green Bond Standard, Other	0.00%
ICMA Bonds Principles, EU Taxonomy, EU Green Bond Standard, UN Sustainable Development Goals	0.06%
ICMA Bonds Principles, EU Taxonomy, LMA Loan Principles	0.00%
ICMA Bonds Principles, EU Taxonomy, UN Sustainable Development Goals, EU Green Bond Standard	0.07%
ICMA Bonds Principles, Japan Green Bond Guidelines	0.99%
ICMA Bonds Principles, Japan Green Bond Guidelines, CBI Climate Bonds Standards	0.02%
ICMA Bonds Principles, Japan Green Bond Guidelines, LMA Loan Principles	0.23%
ICMA Bonds Principles, LMA Loan Principles	2.15%
ICMA Bonds Principles, LMA Loan Principles, ASEAN Capital Markets Forum (ACMF)	0.08%

ICMA Bonds Principles, LMA Loan Principles, ASEAN Capital Markets Forum (ACMF), Other	0.10%
ICMA Bonds Principles, LMA Loan Principles, CBI Climate Bonds Standards	0.07%
ICMA Bonds Principles, LMA Loan Principles, CBI Climate Bonds Standards, EU Taxonomy, Other	0.09%
ICMA Bonds Principles, LMA Loan Principles, CBI Climate Bonds Standards, Other	0.03%
ICMA Bonds Principles, LMA Loan Principles, EU Taxonomy	0.54%
ICMA Bonds Principles, LMA Loan Principles, Japan Green Bond Guidelines	0.14%
ICMA Bonds Principles, LMA Loan Principles, Japan Green Bond Guidelines, CBI Climate Bonds Standards	0.02%
ICMA Bonds Principles, LMA Loan Principles, Japan Green Bond Guidelines, Other	0.07%
ICMA Bonds Principles, LMA Loan Principles, Other	0.60%
ICMA Bonds Principles, LMA Loan Principles, Other, UN Sustainable Development Goals	0.04%
ICMA Bonds Principles, LMA Loan Principles, UN Sustainable Development Goals	0.03%
ICMA Bonds Principles, Other	1.53%
ICMA Bonds Principles, Other, EU Green Bond Standard	0.01%
ICMA Bonds Principles, Other, LMA Loan Principles	0.04%
ICMA Bonds Principles, Other, UN Sustainable Development Goals	0.00%
ICMA Bonds Principles, PBOC - Green Bond Endorsed Project Catalogue	0.63%
ICMA Bonds Principles, PBOC - Green Bond Endorsed Project Catalogue, CBI Climate Bonds Standards	0.01%
ICMA Bonds Principles, UN Sustainable Development Goals	0.69%
ICMA Bonds Principles, UN Sustainable Development Goals, EU Green Bond Standard	0.00%
ICMA Bonds Principles, UN Sustainable Development Goals, EU Green Bond Standard, EU Taxonomy	0.08%
ICMA Bonds Principles, UN Sustainable Development Goals, EU Taxonomy	0.14%
ICMA Bonds Principles, UN Sustainable Development Goals, LMA Loan Principles	0.01%
Issuer's Own Framework	0.35%

Japan Green Bond Guidelines	0.34%
Japan Green Bond Guidelines, ICMA Bonds Principles	0.17%
Japan Green Bond Guidelines, ICMA Bonds Principles, LMA Loan Principles	0.01%
LMA Loan Principles	3.38%
LMA Loan Principles, ICMA Bonds Principles	0.01%
LMA Loan Principles, Japan Green Bond Guidelines, ICMA Bonds Principles	0.00%
LMA Loan Principles, Other	0.07%
Other	1.31%
PBOC - Green Bond Endorsed Project Catalogue	2.85%
PBOC - Green Bond Endorsed Project Catalogue, CBI Climate Bonds Standards	0.03%
PBOC - Green Bond Endorsed Project Catalogue, CBI Climate Bonds Standards, ICMA Bonds Principles	0.66%
PBOC - Green Bond Endorsed Project Catalogue, ICMA Bonds Principles	0.75%
PBOC - Green Bond Endorsed Project Catalogue, ICMA Bonds Principles, CBI Climate Bonds Standards	0.47%
PBOC - Green Bond Endorsed Project Catalogue, ICMA Bonds Principles, LMA Loan Principles	0.04%
UN Sustainable Development Goals	0.52%
UN Sustainable Development Goals, LMA Loan Principles, ICMA Bonds Principles	0.01%
(blank)	10.73%

GLOSSARY

Term	Definition
CFRF	Climate Financial Risk Forum
CDP	Carbon Disclosure Project
EPC	Energy Performance Certificate
ESG	Environmental, Social, and Governance
FCA	Financial Conduct Authority
ICE	Intercontinental Exchange, Inc.
ICMA	International Capital Market Association
IEA	International Energy Agency
LMA	Loan Market Association
LSTA	Loan Syndications and Trading Association
NZBA	Net-Zero Banking Alliance
PCAF	Partnership for Carbon Accounting Financials
PRA	Prudential Regulation Authority
PSF	EU Platform on Sustainable Finance
RSL	Registered Social Landlord
SBTi	Science Based Targets initiative
SDGs	United Nations Sustainable Development Goals
SDR Consultation	The FCA's consultation on sustainability disclosure requirements and investment labels
SFDR	Sustainable Finance Disclosure Regulation
SLB	Sustainability Liked Bond
TCFD	Taskforce on Climate-related Financial Disclosures
TMW	The Mortgage Works
TPT	The UK Transition Plan Task Force
UCITS	Undertakings for the Collective Investment in Transferable Securities
UoP	Use of Proceeds

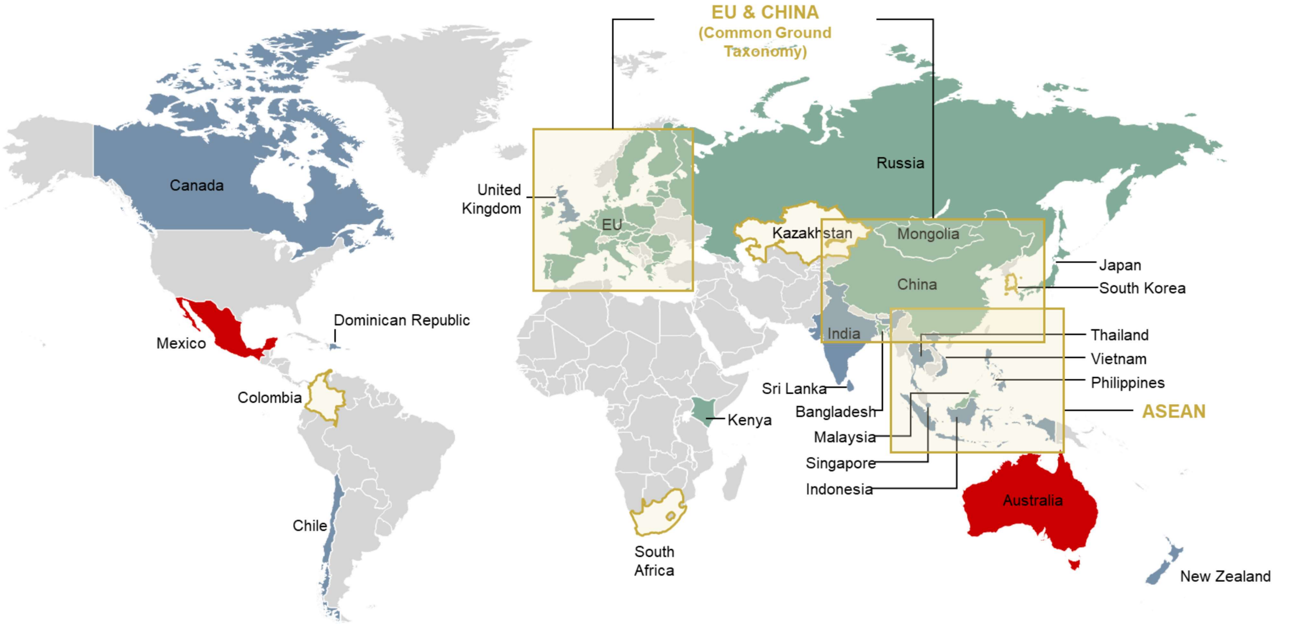
Sustainable finance taxonomies and the integration with CDP's questionnaires

23rd September, 2022
Torun Reinhammar
Associate Director, Capital Markets
CDP Europe

CDP
DISCLOSURE INSIGHT ACTION

Taxonomy landscape

Taxonomy List*	Year of release**
1. EU Taxonomy	2020
2. China Green Catalogue	2015
3. Japan	2017
4. ASEAN	2021
5. UK	2022
6. India	TBD
7. Canada	2021
8. South Korea	2021
9. Russia	2021
10. Indonesia	2022
11. Thailand	2025
12. Philippines	TBD
13. Singapore	TBD
14. Malaysia	2021
15. Bangladesh	2020
16. South Africa	2021
17. Colombia	2021
18. Vietnam	2021
19. Chile	TBD
20. New Zealand	TBD
21. Kazakhstan	2021
22. Kenya	2019
23. Sri Lanka	TBD
24. Dominican Republic	TBD
25. Mongolia	2019
26. Common Ground	2021
27. Climate Bonds Initiative	2013
28. MDBs-IDFC	2015



Key: Released; In development; In discussion; Draft published; No taxonomy discussion underway

Note: View reflective of Nov 2021. Mexico and Australia are in discussion about launching taxonomies; *Sorted by 2020 GDP; **year draft published, or likely to be released taken where taxonomy is yet to be finalised
Source: Future of sustainable data alliance; Reuters; OECD Developing sustainable finance definitions and taxonomies

Taxonomy archetypes

	Full purpose	EU light	Supranational	Principles based	Narrow focus
Purpose	***Taxonomies aimed at shifting entire economies towards net zero***	**Preventing greenwashing in financial markets**			
Description	Closest alignment with CDP mission EU, UK	*Taxonomies based on and with similar features to the EU taxonomy* S. Africa, Colombia, S. Korea, Singapore, Chile, Bangladesh	*Private and multi-national taxonomies* Climate Bonds, IDFC MDBs & IDFC[1] Common Ground (CG), ASEAN	*Specify broad principles to test activities against (no detailed targets / metrics)* Japan, Malaysia	*'Going their own way', taxonomies aligned to own separate needs* China, Russia, Mongolia, Kenya
Key features	**All share 5+ key features with EU, including:** Activity based with broad activity scope Aimed at Paris 2 degrees or net zero 2050 Inclusion of 'Do No Harm' requirement **Announced EU alignment / influence**		• **Voluntary** taxonomies • More **specific aim** than national taxonomies – CBI: climate mitigation – MNBs: development finance – ASEAN & CG: alignment • **International flexibility:** – E.g. ISIC activity classification and/or Paris 2 degree alignment	• **Principles based** – Activities, if given, are examples and non-exhaustive – Any activity can be tested against the principles	**Green tech only** **Own high level goals** China - net zero 2060 Mongolia/Russia include **clean coal** **Less common features** 3 lack 'Do No Harm' requirements 2 exclude transition activities 2 are project-based
Differences within group	• **Very high similarity,** UK plans **minor adaptations** to EU	• **Very high similarity**, with most **based on EU taxonomy**	Scope of objectives & activities, measurement method	• **Limited convergence** on other criteria	• **Limited convergence** between taxonomies in group
Priority for mapping?	• **High priority** due to **extensive reach**	• **Low priority** due to **similarity**	• High **priority where reach is high** i.e. supranational	• Low priority - **impact on CDP is weaker** e.g. no specific metrics	• High **priority where reach is high** i.e. China, maybe Russia

Note: (1) Common principles released by a partnership of nine Multilateral Development Banks and the IDFC (Int. Development Finance Club - 26 regional and national development banks); Taxonomies with limited data available not shown (India, Canada, Indonesia, Thailand, Philippines, Vietnam, New Zealand, Kazakhstan, Sri Lanka, Dominican Republic)

Ideal taxonomy defined using TEG recommendations

DISCLOSURE INSIGHT ACTION

/ PRELIMINARY

Classification criteria – used to assess similarity to ideal taxonomy*

Prioritisation criteria

Objective

Objectives beyond environment

Taxonomies may be purely environment focused but *ideal taxonomy extends to cover minimum social safeguards*

'Do no harm' requirement

In an *ideal taxonomy, respondents must prove an activity has no negative impact on taxonomy's other goals*

High level policy goals

Definitions of 'green' may be aligned to high level policies - *ideal taxonomy is aligned to net zero by 2050 or Paris 2 degrees*

Scope

Scope of activities

May only cover green technologies (limiting emissions covered) but *ideal taxonomy includes broader activity set*

Inclusion of 'transition activities'

E.g., natural gas. May be included within taxonomy, as separate report, or, *in an ideal taxonomy, not at all*

Industrial classification

May use different classification systems to define activities – *ideal taxonomy uses ISIC** for maximum ease of use globally*

Detail

Level of specificity

May be based on principles (e.g., reduce emissions), activities (e.g., low carbon energy) or projects (e.g., install smart meters) – *ideal taxonomy is activity-based, balancing breadth and specificity*

Binary or scale measure

Classification as 'green' may be binary (reaching a threshold) or, in an *ideal taxonomy, scaled (e.g., traffic lights) to demonstrate level of green*

Reach

Company reach

Taxonomies may impact a large number of companies (e.g., if released by large governmental organisation) or a small number of companies (e.g., if released by small industry group)

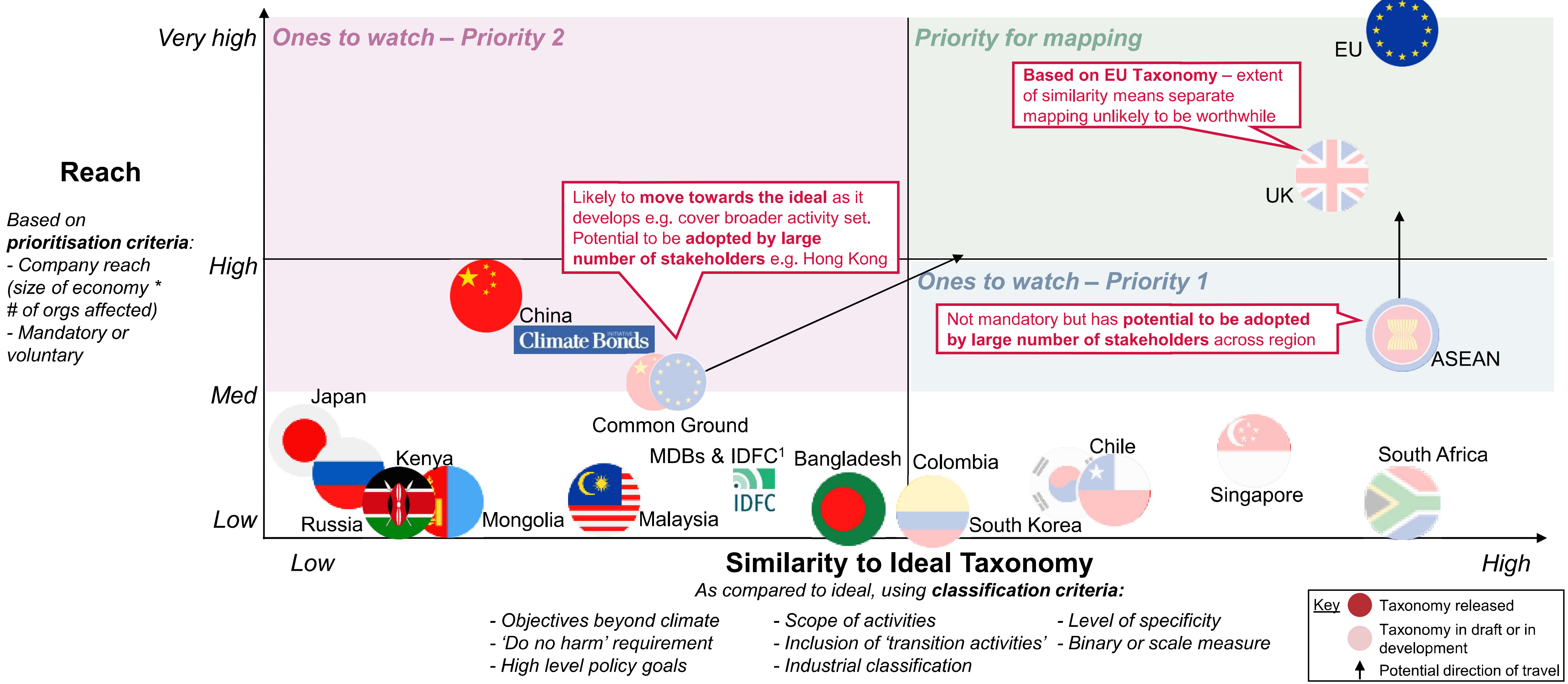
Mandatory or voluntary

Reporting on taxonomies may be legally required, or may be done on a voluntary basis

Note: *Ideal taxonomy criteria based on recommendations of the EU Technical Expert Group (TEG) on Sustainable Finance unless literature search showed valid criticism of these recommendations. This applies to inclusion of 'transition activities', industrial classification and binary or scale measure. TEG includes 35 members, incl. CDP, from civil society, academia, business and the finance sector, as well as observers from EU and international public bodies; **The International Standard Industrial Classification of All Economic Activities (ISIC) produced by the United Nations; Source: OECD library; Reuters; World Bank; ICMA; Bank for International Settlements;

Priorities: EU now, watch ASEAN and Common Ground

/ ILLUSTRATIVE, LANDSCAPE IS EVOLVING



Note: (1) Common principles released by a partnership of nine MBDs and the IDFC (Int. Development Finance Club - 26 regional and national development banks); 10 taxonomies currently lack data availability and have been excluded from the above assessment: India, Canada, Indonesia, Thailand, Philippines, Vietnam, New Zealand, Kazakhstan, Sri Lanka and Dominican Republic

Reach, scope, and timing makes EU top priority

	Priority for mapping				*Ones to watch*
	EU taxonomy	**China catalogue**	**Climate bonds** Climate Bonds	**Common Ground**	**ASEAN taxonomy**
Purpose	Drive **sustainable activities** and investments across the economy	**Eliminate greenwashing** from green bond issuance	Provide a **common guide** of climate aligned assets and projects verifiable as green	Improve **interoperability** of taxonomies to prevent greenwashing	A **common language** to guide capital towards truly green activities **across the region**
Reach	**High**: Covers ~50K companies / financial institutions and est. €2T+ value* **Most CDP disclosers** in EU will be impacted	**Medium**: ~€40B green bond issuances in 2020 Narrow application, implies **limited impact on CDP disclosers** in China	**Medium**: ~€30B in Certified Climate Bonds in 2021**	**In development**: likely broad reach given EU and China collaboration; HK likely to adopt	**In development**: likely broad reach across 10 member states, especially those with no current taxonomy
Timeline	Reporting required from **Jan 2022** for first two objectives Remaining from 2023	Updated catalogue released in May 2021, reporting mandatory from **June 2021**	Released in **2013** (first climate taxonomy)	**Draft** of Climate Change Mitigation objective published in **Nov 2021**	**Draft** published in **Nov 2021** – to be iterated with public and private stakeholders
Level of specificity and scope	**Activity based** 70+ activities across 9 sectors including traditional activities	**Project based** 203 projects across 6 high impact sectors, focussed on green technology	**Project based** 165 projects / assets across 8 sectors, largely focussed on green technologies	**Activity based** 80 activities across 6 sectors, focussed on green technologies	**Activity based** 6 focus sectors and 3 enabling sectors including traditional activities

Notes: *Conservative minimum value of reporting companies (all listed companies with >500 employees): top 5 EU Companies have a market cap. of ~€1.6T, Euronext market cap at €5.6T (c.1000 companies), and large enterprises (>250 employees) make up ~$6.6tr in GVA; **to October 2021

Source: CBI; European Union; ICMA Group; Sustainable Finance Institute Asia

EU taxonomy divergence from best practice

Inclusion of non-green activities	Inclusion of fossil fuels (beyond TEG recommended thresholds), industrial logging, and intensive agriculture, which has driven controversy and retaliation from states and investors.
Limited GHG coverage	Included sectors & activities cover only 80% of Scope 1 emissions (vs TEG recommended coverage of 93.5%), and exclude, for example, retail & wholesale trade, mining & quarrying.
Non-stringent screening criteria	Technical screening criteria are not 'zero carbon' today – bioenergy and forestry thresholds are controversial as the criteria were relaxed and only the largest ~30% of EU forest holdings are covered.
Classification codes not comprehensive	NACE is not internationally recognized or widely used by corporates.
Development lags	Fears that EU Taxonomy developments will be slow and lag behind technology progression, thus hindering investment in new technologies.