

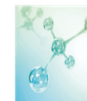
# New Geography of Taxonomies

## The EU-China Taxonomy

16 December 2021

*Sustainable finance taxonomies have been springing up across jurisdictions. Market participants often have “taxonomy headaches”. The two pioneers in taxonomies, namely, EU and China, have co-chaired the taxonomy working group of the IPSF and joined forces to enhance comparability through the recent release of the “Common Ground Taxonomy” (CGT). Is the CGT a “painkiller to taxonomy headaches”? Could it pass the “clinical trial”? To what extent will it impact sustainable finance markets?*

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# A Snapshot of EU and China's climate and environment objectives



## European Union (EU) Identity Card in Climate

**Climate Commitments:**  
Climate neutral by 2050

**Updated NDC:**  
Reduce at least **55% in GHG emission** by 2030 compared to 1990 level

**Sustainable finance:**  
European Green Deal - mobilize at least €1 trillion of sustainable investments over the next decade; an evolving taxonomy in use

**Share of global GDP in 2020:**  
18.1%

**Share of global GHG emissions in 2018:**  
7.8%

## Latest Announcements

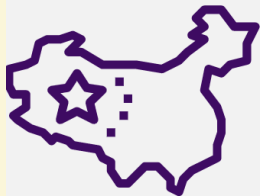
### Policy package - "Fit for 55 package"

The European Commission adopted 13 proposals to enable the more ambitious target on GHG emissions reduction on July 14<sup>th</sup>

### Sustainable finance:

The EC announced a "**renewed sustainable finance strategy**" to make it easier for public authorities to raise sustainable capital and to channel private financial flows into sustainable projects.

- Disclosure: Delegated Act supplementing Article 8 of the Taxonomy Regulation
- Taxonomy: 1st Delegated Act on climate change and adaptation and mitigation was adopted and will come into force from 1st Jan 2022. EU Green Bond Standard and social taxonomy are under consultation



## People's Republic of China Identity Card in Climate

**Climate Commitments:**  
Carbon peaking by 2030 & neutrality by 2060

**Updated NDC:**  
Reduce **CO2 emissions per unit of GDP by over 65%** from the 2005 level

**Sustainable finance:**  
Established "5 pillars" to mobilize green finance, Green Bond Endorsed Projects Catalogue; Green Industry Guiding Catalogue in use

**Share of global GDP in 2020:**  
17.4%

**Share of global GHG emissions in 2018:**  
26.9%

## Latest Announcements

### Overarching Principle Design – "1+N" policy framework

In October, Chinese government released a series of top-level design documents to address climate change with detailed objectives.

### Sustainable finance:

- Stop financing new overseas coal projects
- A new green facility from PBoC: carbon-reduction supporting tool
- PBoC released new Green Finance Assessment Plan for banks, to encourage green loans and bonds issuance.
- Disclosure: PBoC released the first Guidelines for Financial Institutions Environmental Information Disclosure
- Taxonomy: Green Bond Endorsed Projects Catalogue 2021 Edition entered into force from July 2021.



- As early as 2005, the EU-China Partnership on Climate Change Search has provided a high-level political framework for cooperation and dialogue. The two blocks last year built of a High-Level Environment and Climate Dialogue (HECD).
- EU supported the design and implementation of China's national ETS market, similar joint projects are observed in green recovery



# The ABC of Taxonomies

## The early stages of an irreversible trend

A Taxonomy is a **classification tool or system meant to help investors and companies to make informed investment decisions on sustainable economic activities**. It aims at establishing market clarity on what is robustly and consensually “sustainable” when it comes environmental or social issues.

### A topic that “matters”



- Taxonomies serve as the **bedrock of many sustainable finance regulations** but also public policies, stimulus plan, prudential supporting factor, etc
- Their development is **fraught with political pressure or economic lobbying** (e.g., intense debates on gas, nuclear, GMO, clean coal, biofuels, etc.)

- **Environmental and pure green Taxonomies are the most common**
- **But social and transition Taxonomies are gaining momentum.**
- The **EU’s Taxonomy** is the **most comprehensive and granular one**, *China’s Taxonomy remains instrumental for Asian investors* and emerging markets.
- Above all, it is **the basis of an entire ecosystem of use-cases, regulations and schemes** (disclosure, labels of financial products, public procurement, prudential changes).

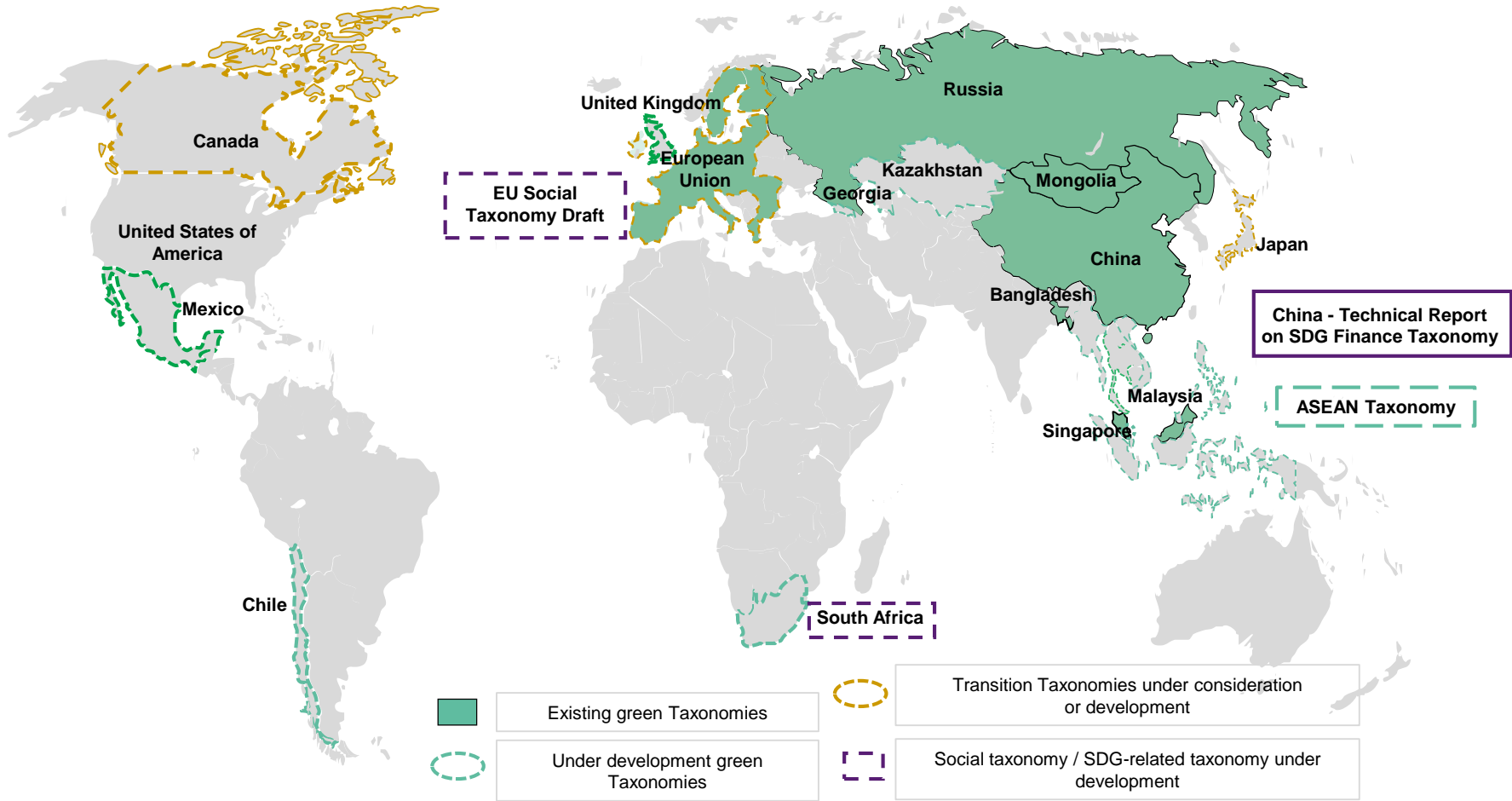
A global benchmark

### Trends & opportunities

- Many countries adapt the EU Taxonomy criteria to their needs and China helped with neighboring jurisdictions to develop their own taxonomies.
- **Coordinating and harmonizing Taxonomies** is both a challenge and a necessity
- Taxonomy alignment disclosure should **not be perceived as a reporting burden** but as a **tool to steer companies’ business model transition**.

# A Global Phenomenon: Taxomania

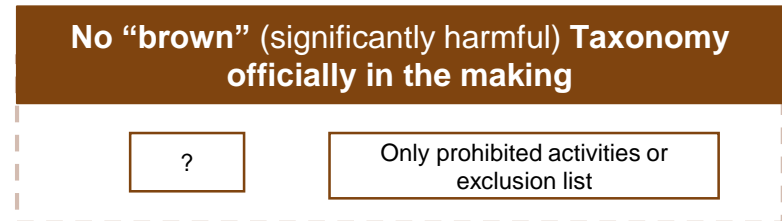
Map | Overview of existing and under development sustainable finance classifications of activities



This study was mostly conducted in the first half of 2021. Numerous other initiatives have emerged since then and announcements keep growing. Therefore, a number of taxonomies projects are not covered in this study, or not in details. For instance, the Korean Taxonomies, but also initiatives from Sri Lanka, Indonesia, Vietnam, Philippines, Thailand, Colombia or New Zealand.

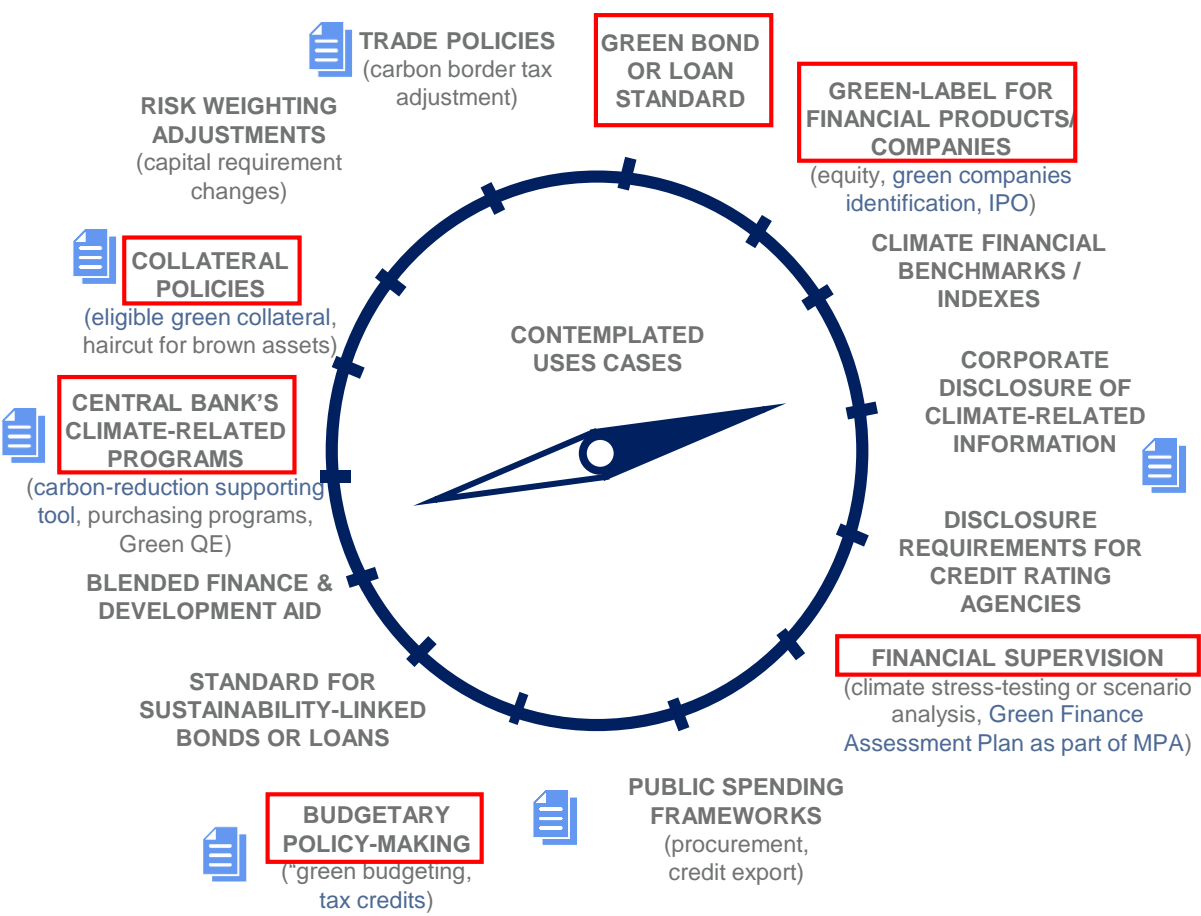
# The Taxonomy global standard-setting race

## Our benchmark sample



# The variety of use-cases is astonishing

Taxonomies are rarely standalone documents, but the linchpin of entire ecosystems of laws & incentives



1 For the time being, EU taxonomy primarily underpin voluntary standards on Green Bonds issuances, whereas it is mandatory in China

Apart from labels on dedicated and specific financial products, disclosure against Taxonomy criteria is mandatory in the EU. China does not have such regulation yet.

2 In a near future, marketing a financial product or service allegedly green or sustainable within a jurisdiction without referring to its national Taxonomy is likely to be dissuaded or forbidden across jurisdictions.

3 Use-cases **beyond mere transparency with direct material financial consequences** are in the making (taxonomy aligned monetary or prudential policies).

Such unfolding largely depends on the **usability and reliability of the classifications**, on the acceptance and penetration of these classifications in market participants operational processes (alignment data availability)



## Taxonomy influence scorecard

<b>COMPREHENSIVENESS</b>	Sectorial span, amount of GHG emissions covered, number of activities reviewed, sub-categories granularity
+	
<b>SOPHISTICATION</b>	Criteria refinement (e.g., mere qualitative and aspirational criteria such as “eco-friendliness”, whitelist, principles-based guidelines, quantitative thresholds) ; existence of intermediary levels, cumulative set of conditions, ESG safeguards
+	
<b>USABILITY</b>	Nature and complexity of the demonstration and verification process, data inputs required
+	
<b>STRINGENCY</b>	Ambition level of the criteria (easiness to achieve)
+	
<b>OPENNESS</b>	Recipients or end-users' involvement at different life stages ( advisory groups, public consultation, grievance mechanisms, criteria updates)

The overall acceptance and legitimacy of a Taxonomy

X

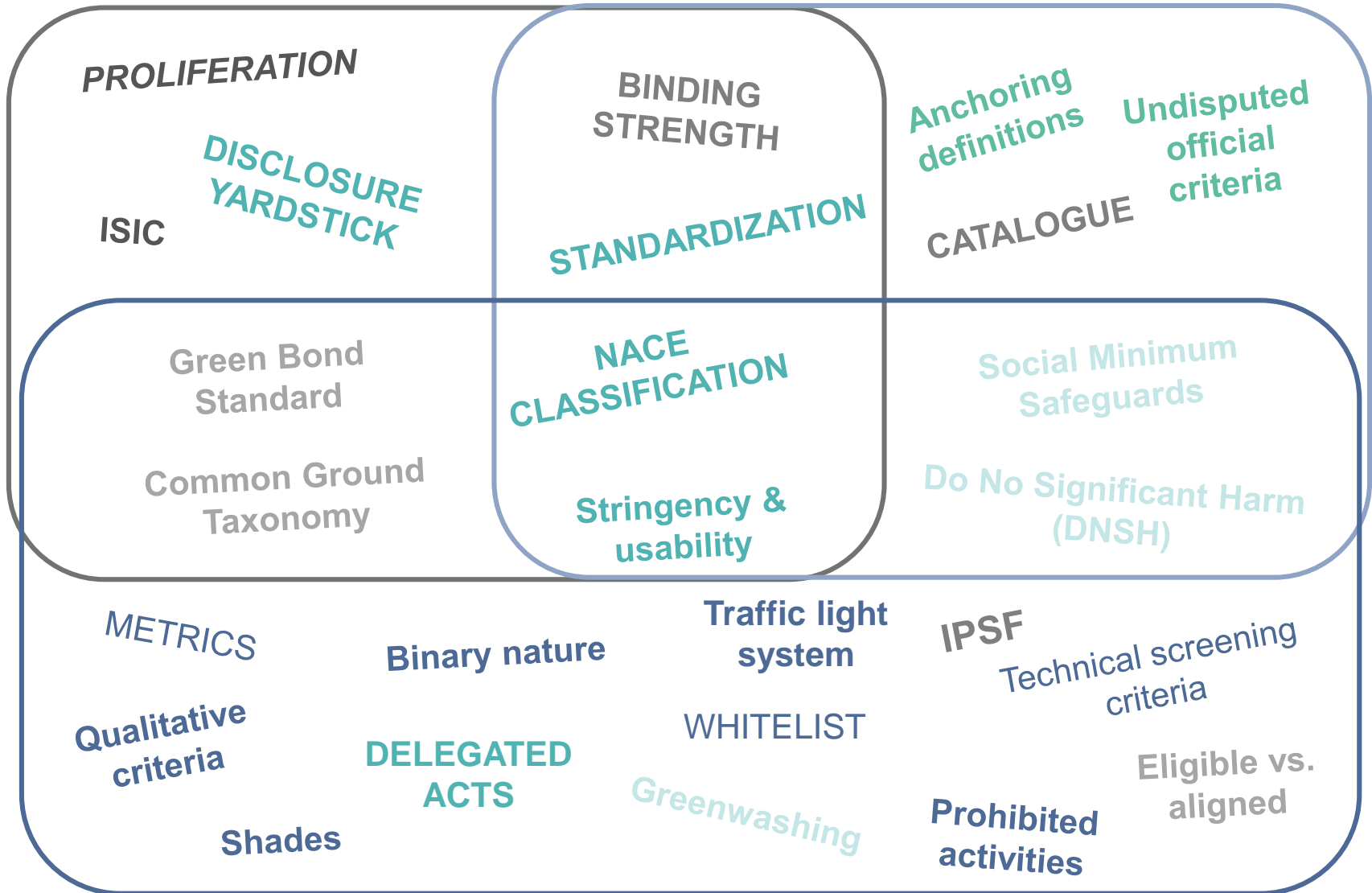
The economic weight of the Taxonomy's jurisdiction and the role played by its currency and law in international business affairs (extra-territorial effects)

=

The global influence of one jurisdiction's Taxonomy



# Taxonomy headaches



# Our continued work & coverage on Taxonomies



TEG 101 - EU Taxonomy of sustainable activities

[>> Read](#)

EU Sustainable Finance Action Plan

Find out more on our Website:

<https://gsh.cib.natixis.com/our-center-of-expertise>



As the global landscape of Taxonomies has developed, we have enlarged our scope of work on Taxonomies...



**NATIXIS**  
CORPORATE & INVESTMENT BANKING

## The New Geography of Taxonomies Webinar

November 18<sup>th</sup>, 2021  
Asia-Pacific | Americas  
8.30 - 9.30 a.m. CET | 3.30 - 4.30 p.m. CET

GREEN & SUSTAINABLE HUB

#Taxonomies



## The New Geography of Taxonomies

04 Oct 2021 | Center of Expertise and Innovation

Flagship reports

In the field of sustainable finance, guidelines and standards are the bedrock of product design and market integrity. Private investing and funding strategies need anchoring definitions and undispu...

[Read more...](#)

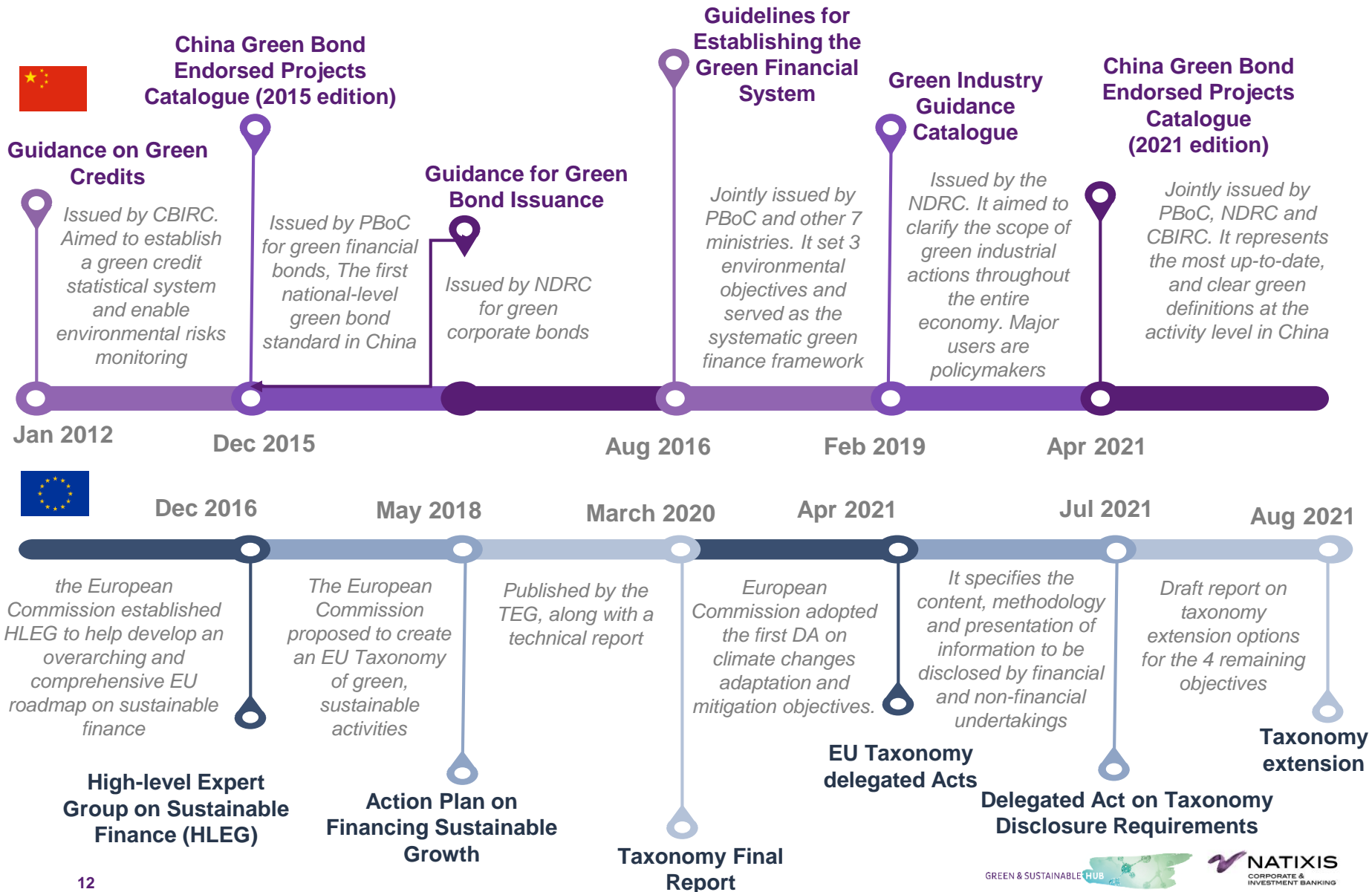
A webinar on The New Geography of Taxonomies was held on 18 November. Replay is available on our [website](#).



# 2

## Taxonomy development in EU and China



# EU and China's taxonomies development







# China's Taxonomies landscape

## China's most important and recent green taxonomies in use

<p><b>Green Industry Guiding Catalogue</b></p> 	<p><b>Designers:</b></p> <p>Led by National Development Reform Commission (NDRC), PBoC and other ministries</p>	<p><b>Specific objectives:</b></p> <ul style="list-style-type: none"> <li>• <b>Delineate the boundaries of green industries</b> and mitigate the risk of greenwashing</li> <li>• Serve as overarching principles to orient decision-making processes at all levels and channel capital flows in green industries.</li> </ul>	<p><b>Primary users:</b></p> <ul style="list-style-type: none"> <li>• Mainly policy makers</li> <li>• But also Chinese businesses and financial institutions</li> </ul>	<p><b>Use cases:</b></p> <ul style="list-style-type: none"> <li>• Mandatory for green industry relevant policy-making and central bank's climate related program</li> <li>• Reference for green taxonomies design for financial instruments (bond and credit)</li> <li>• Green industry players identification and green assets /investment alignment</li> </ul>
<p><b>Green Bond Endorsed Projects Catalogue</b></p> 	<p><b>Designers:</b></p> <p>Led by PBoC, NDRC and China Securities Regulatory Commission (CSRC)</p>	<p><b>Specific objectives:</b></p> <ul style="list-style-type: none"> <li>• Create a <b>common approach and language</b> to help market participants (bond issuers) identify economic activities that are deemed sustainable in China</li> <li>• Unify the fragmented standards of green projects in green securities market.</li> </ul>	<p><b>Primary users:</b></p> <ul style="list-style-type: none"> <li>• Financial institutions</li> <li>• Corporates</li> </ul>	<p><b>Use cases:</b></p> <ul style="list-style-type: none"> <li>• Financial instruments: mandatory for green bonds (financial /corporate/company/DFI) and ABS</li> <li>• Mandatory green bond policies</li> <li>• Green macro prudential assessment (MPA)</li> </ul>

## Greening China's overseas investments and development beyond green taxonomy

<p><b>Green Development Guidance for BRI Projects (GDG)</b></p> 	<p><b>Designers:</b></p> <p>Belt and Road Initiative International Green Development Coalition (BRIGC)</p>	<p><b>Specific objectives:</b></p> <ul style="list-style-type: none"> <li>• Promote "high quality" and <b>green development of the BRI, guide BRI</b> investments to shift from brown to green</li> <li>• It provides 9 recommendations for greening the BRI, a classification system and the positive and negative lists focusing on the environmental, climate and biodiversity impacts of projects.</li> </ul>	<p><b>Primary users:</b></p> <ul style="list-style-type: none"> <li>• Policy makers</li> <li>• Financial institutions</li> <li>• Owners of investment projects</li> <li>• All stakeholders involved</li> </ul>	<p><b>Use cases:</b></p> <ul style="list-style-type: none"> <li>• Policy-making</li> <li>• Green investments along BRI</li> <li>• Outbound green investments alignment</li> </ul>
<p><b>SDG Finance Taxonomy</b></p>  <p>F13</p>	<p><b>Designers:</b></p> <p>UNDP and China's Ministry of Commerce</p>	<p><b>Specific objectives:</b></p> <ul style="list-style-type: none"> <li>• Urge investments flowing into those projects which will benefit groups left behind.</li> <li>• Provide impact measurement and reporting tools in order to close gaps on SDG.</li> </ul>	<p><b>Primary users:</b></p> <ul style="list-style-type: none"> <li>• Policy makers</li> <li>• Financial institutions</li> <li>• Businesses</li> <li>• All stakeholders involved</li> </ul>	<p><b>Use cases:</b></p> <ul style="list-style-type: none"> <li>• Policy-making</li> <li>• Financial instruments</li> </ul>



# Overarching EU-China's taxonomy comparison\* (1/2)

## Key features

### Environmental Objectives

- The EU taxonomy set **6 environmental objectives**, whereas China set **3**, however not as an entry point.
- EU and China's environmental goals are substantive overlapped.
- However, due to different development stages, the priorities of environmental objectives are not identical, they vary at more granular level.
- China is tackling broader environmental pollution challenges, whereas EU developed its taxonomy in a staged manner and focused on climate change adaptation and mitigation initially.

EU Taxonomy environmental objectives	China Taxonomy environmental objectives
Climate change mitigation	Climate change response
Climate change adaptation	
The sustainable use and protection of water and marine resources	Environmental improvement (pollution control and ecological conservation)
The protection and restoration of biodiversity and ecosystems	
The transition to a circular economy	
Pollution prevention and control	More efficient resource utilization (circular economy, waste recycling and pollution prevention)

### Use-cases and Primary Users

#### Mandatory use-cases

In **China**, use of the Green Bond Endorsed Projects Catalogue is **mandatory for China onshore green bonds issuance**.

In the **EU**, larger investee-companies will have a **duty to disclose their alignment with the taxonomy** by the end of 2024. The proposal for the European Green Bond Standard (EU GBS) requires that issuers must **allocate 100% of the proceeds to economic activities that aligned with the EU Taxonomy requirements**. When marketing "green products", investors must refer to its technical criteria.

#### Primary Users

##### China

- Financial Institutions
- Businesses (both state-owned enterprises and private ones)

##### EU

- Member States and the Union
- Large companies
- Investors



# Overarching EU-China's taxonomy comparison (2/2)

## Sector coverage and type of criteria

Categories of economic activities	Methodologies for defining eligibility	
<p style="text-align: center;"><u>European Union</u></p> <ol style="list-style-type: none"> <li>1. Forestry</li> <li>2. Environmental protection and restoration activities</li> <li>3. Manufacturing</li> <li>4. Energy</li> <li>5. Water supply, sewerage, waste management and remediation</li> <li>6. Transport</li> <li>7. Construction and real estate activities</li> <li>8. Information and communication</li> <li>9. Professional, scientific and technical activities</li> </ol>	EU	China
<p style="text-align: center;"><u>China</u></p> <ol style="list-style-type: none"> <li>1. Energy-saving and environmental protection industry</li> <li>2. Clean production industry</li> <li>3. Clean energy industry</li> <li>4. Ecology and environment-related sector</li> <li>5. Sustainable upgrade of Infrastructure</li> <li>6. Green services</li> </ol>	<p style="text-align: center;"><b>Methodology</b></p> <p style="text-align: center;"><b>Technical Screening Criteria (TSC)</b></p>	<p style="text-align: center;"><b>Whitelist + national &amp; industrial standards</b></p>
<p><b>Explanation</b></p>		
<p style="text-align: center;"><b>Comparison</b></p> <ul style="list-style-type: none"> <li>• EU's approach allows to cover all economic sectors with predefined TSC, this <b>all-encompassing methodology</b> provide possibility to take brown industries into account, such as cement sector.</li> <li>• Whereas, activities in the China taxonomy are not mapped against industrial classification standards, but rather regarding <b>low-carbon technologies</b>. The Chinese government sets various targets for green transition and believe the transition will be technology-driven, the "white list" shows the low-carbon technologies of priority that can lead to achieve these targets. The technologies can be applied to multiple sectors.</li> <li>• Besides, China taxonomy <b>contains limited illustrations on the relationship between activities and environmental objectives</b>.</li> </ul>		



3

## EU-China Common Ground Taxonomy





# The EU-China Common Ground Taxonomy(1/5)

A long-awaited and important international cooperation output

- In July 2020, the EU and China initiated a Working Group within the International Platform on Sustainable Finance (IPSF) to undertake a **technical comparison of the taxonomies from the two jurisdictions**.
- On 4<sup>th</sup> November 2021, the Working Group released its **first phase report: the IPSF Common Ground Taxonomy (CGT)**.
- This document also aims at enhancing worldwide **comparability and interoperability** of sustainable finance standards.

## Objectives and use-cases of CGT

### Objectives:



- Identifying commonalities and differences in EU and China's taxonomies on climate change mitigation criteria, it does not aim to be formally or legally endorsed by any IPSF member jurisdictions
- Target to provide a generic methodology for benchmarking taxonomies, but not to propose a 'common' or 'single' taxonomy nor a standard
- Provide analytical tools or reference (guidance) for other jurisdictions when developing their own taxonomies

### Primary users of the CGT:



- Mostly Chinese and European Green bond issuers and verifiers
- Various entities, including banks and financial institutions
- Jurisdictions such as national governments or regional bodies looking for toolkits or guidance to develop their own taxonomy

### CGT Environmental Objective (scope of analysis):

*Climate Change mitigation*

## November 2021 Deliverables



**Instruction Report**  
(background, methodological explanations)  
[43 pages](#)

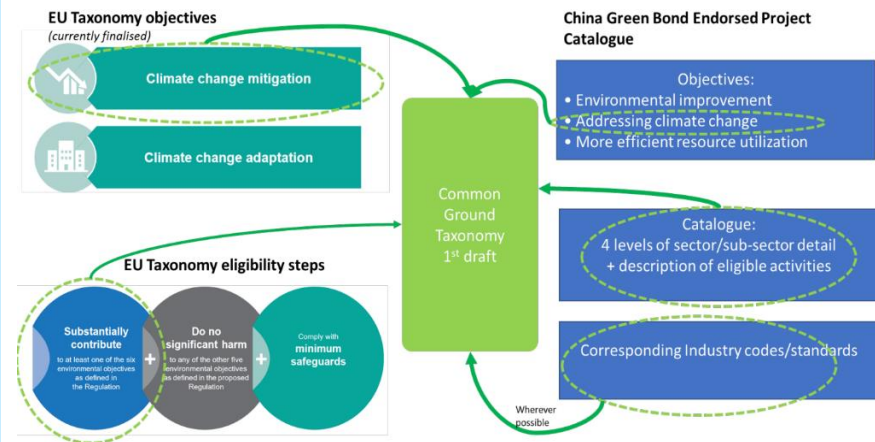


**Activities' table**  
(the taxonomy itself, covering 61 activities)  
[62 pages](#)



**Feedback/consultation document**  
[6 pages](#)

## Chart | Scope of comparison



Source: *Ibid.* IPSF, [Instruction report](#), November 2021



# The EU-China Common Ground Taxonomy (2/5)

## Section mapping and scenario methodologies

The Common Ground Taxonomy benchmarks at a **neutral code for macro-sector classification** and uses a “**scenario analysis approach**” to evaluate the detailed descriptions and technical screening criteria of each activity and ascribe them with 6 scenarios.

### Categories of economic activities



#### Methodology:

- The CGT's sector classification system is based on the International Standard **Industrial Classification of All Economic Activities (ISIC)**.
- It identifies **priority sectors based on emission levels** for further sector and criteria mapping.
- **Only sectors included in both the EU and China taxonomies are covered yet** (i.e., ICT and green services are not included).
- A **total of 55 activities** are included in the current version of CGT activities' table, **covering 87 activities under the EU Taxonomy and 94 activities under the China Taxonomy**, within the scope of **climate mitigation**.

#### Sectors selected

- Agriculture, forestry and fishing
- Manufacturing
- Electricity, gas, steam and air conditioning supply
- Water supply; sewage, waste management and remediation activities
- Construction
- Transportation and storage
- Others (underground permanent geological storage of CO2 and hydrogen storage)

### Scenario Analysis



#### Methodology:

- The CGT concludes the descriptions and technical screening criteria of each activity into **6 scenarios**.
- The scenario classification is based on the comparison on which area of activities and criteria are overlapped, more stringent, or obvious divergence.
- The **methodology of CGT is not designed to develop common criteria**.

#### Scenario

- Scenario #1: Areas with clear overlaps
- Scenario #2: EU criteria are more stringent and/or detailed
- Scenario #3: China criteria are more stringent and/or detailed
- Scenario #4: Identifiable overlap
- Scenario #5: Unclear overlap
- Scenario #6: Obvious divergence



# The EU-China Common Ground Taxonomy (3/5)

## Example of scenarios

### Scenario 1: Areas with clear overlaps

CGT Number and Activity Name	D1.3 Electricity generation from wind power
Description	Construction or operation of electricity generation facilities that produce electricity from wind power.
Substantial contribution criteria	Activity meets description above
Additional notes	China activity: 3.2.2.1 Construction and Operation of Wind Generators EU activity: 4.3 Electricity generation from wind power
Overlap scenario selected and explanations	<u>Scenario #1</u> Areas with clear overlaps. <u>Explanations:</u> <u>China and EU have the same description and technical criteria, which is related to the nature of the technology or asset itself.</u>

We have been adding explanations or clarifications that we would consider as helpful for CGT users and adding usability (track changes on the original text).

#### Natixis

The source of the description should be mentioned, i.e. whether it is a copy/paste of the EU taxonomy, of the Chinese Catalogue, or a mix of both.

#### Natixis

There is a confusion here between “description” and “criteria”, although it is right that quantitative threshold does not apply in this specific instance (the technology agnostic threshold of 100gCO2/KWh of the EU Taxonomy does not apply in the case of electricity generation from wind power).

#### Natixis

Overlap in terms of activities covered (scope and sector granularity) and in terms of criteria must be differentiated.

### Scenario 2: EU criteria are more stringent

CGT Number and Activity Name	F1.1 Renovation of existing buildings
Description (The new one)	Energy-saving renovation of existing buildings and energy-use systems of buildings.
Substantial contribution criteria (The EU one)	The building renovation leads to a reduction of primary energy demand (PED)/energy consumption/ GHG emissions of at least 30%.
Additional notes	China activity: 5.2.1.5 Energy conservation and environmental-friendly renovation of existing buildings
Scenario selected and explanations Overlap scenario	<u>Scenario#2</u> : EU criteria are more stringent <u>Explanations:</u> <ul style="list-style-type: none"> <li><u>China criteria aligns with its national standard (Assessment Standard for Green Retrofitting of Existing Building, GB51141. Available here). However, China does not have such corresponding threshold on improvement, nor specifies qualitative stricter activities features.</u></li> <li><u>EU criteria are shown above and is more stringent in terms of screening criteria.</u></li> </ul>

#### Natixis

Stringency in terms of activities covered (scope and sector granularity) and in terms of criteria must be differentiated and explained.

#### Natixis

When referring to national regulations and standards either from EU or China, a link to access them will be helpful.



# The EU-China Common Ground Taxonomy (4/5)

## Example of scenarios

### Scenario 3: EU criteria are more stringent

CGT Number and Activity Name	D1.1 Electricity generation using solar photovoltaic technology
Description <a href="#">(EU one)</a>	Construction or operation of electricity generation facilities that produce electricity using solar photovoltaic (PV) technology.
Substantial contribution criteria <a href="#">(Chinese one)</a>	The component products selected for solar photovoltaic power generation facilities should meet the following requirements: 1) The minimum photoelectric conversion efficiency of polycrystalline silicon cells and monocrystalline silicon cells shall not be less than 19% and 21% respectively; 2) The minimum photoelectric conversion efficiency of polycrystalline silicon cell modules and single crystal silicon battery modules shall not be less than 17% and 17.8% respectively; 3) The minimum photoelectric conversion efficiency of silicon-based, CIGS, CdTe and other thin-film battery modules shall not be less than 12%, 14%, 14%, 12% ; 4) The decay rates of polycrystalline silicon battery modules and monocrystalline silicon battery modules shall not be higher than 2.5% and 3% in the first year, and not higher than 0.7% per year, and not higher than 20% within the period of 25 years; the attenuation rate of thin-film battery module shall not be more than 5% in the first year, no more than 0.4% per year in the following year, no more than 15% within the period of 25 years.
Additional notes	The EU activity that overlaps with but is broader than the specified scope includes: 4.1. Electricity generation using solar photovoltaic technology
<a href="#">Overlap scenarioScenario selected and explanations</a>	<a href="#">Scenario #3: China criteria are more stringent</a> <a href="#">Explanations:</a> <ul style="list-style-type: none"> <li><a href="#">China taxonomy sets minimum/maximum conversion efficiency and attenuation rate indexes for PV projects, whereas EU taxonomy does not have such limits.</a></li> <li><a href="#">China's criteria are shown above and is more granular and prescriptive in terms of eligible projects (efficiency and lifespan criteria that somehow serve as DNSH criteria).</a></li> </ul>

### Scenario 4: Identifiable overlap

CGT Number and Activity Name	H1.1 Construction and operation of public transportation system in urban and rural areas
Description <a href="#">(Chinese one)</a>	Construction and operation of subways, light railways, tram and other urban rail transportation facilities; construction and operation of high-capacity public transportation facilities, such as BRT bus stations, lines and other facilities construction and operation; purchase of public transportation vehicles, etc.
Substantial contribution criteria <a href="#">(EU one)</a>	<b>Scope: passenger public transport</b> The activity complies with one of the following criteria: (a) the trains and passenger coaches have zero direct (tailpipe) CO2 emissions; (EU, 6.3)
Additional notes	The <b>EU activity</b> that overlaps with but is broader than the specified scope, it <a href="#">also includes private passenger vehicles</a> . <a href="#">Refer to 6.3 Urban and suburban transport, road passenger transport (available here)</a>  The <b>China activity</b> that overlaps with but is broader than the specified scope, because it has looser criteria. Whereas, EU taxonomy <a href="#">only includes projects that have benefits of GHG emissions reduction</a> . <a href="#">Refer to 5.5.1.5 Construction and operation of public transportation system in urban and rural areas(available here)</a>
<a href="#">Overlap scenarioScenario selected and explanations</a>	<a href="#">Scenario#4: Identifiable overlap</a> <a href="#">Explanations:</a> <ul style="list-style-type: none"> <li><a href="#">China taxonomy overlaps with the EU one in terms of activity perimeter: The intersection is limited to passenger public transportation activity.</a></li> <li><a href="#">China taxonomy is broader in scope because of its less stringent technical criteria: Only criteria on the purchase of public transportation are listed in China's taxonomy (Limits and Measurement Methods of Fuel Consumption for Commercial Vehicle for Passenger Transportation JT/T711, available here), it does not have such corresponding threshold as EU, nor specifies qualitative stricter activities features.</a></li> <li><a href="#">EU taxonomy is broader in scope because of its more inclusive economic activities.</a></li> </ul>



# The EU-China Common Ground Taxonomy (5/5)

## Next steps

- Public consultation ([available here](#)) until 4 January 2022.
- As emphasized in the Common Ground Taxonomy Instruction Report, the working group compared only some features of the EU and China taxonomies for the first phase, other missing parts are planned to be incorporated into future work.

### Envisioned Extensions

- ❑ **Additional sectors:** The current CGT only covers the sectors that significantly contribute to the GHG emissions to both jurisdictions, other enabling sectors such as ICT and services will be considered for future iteration of work.
- ❑ **Additional environmental objectives:** In the next step, the working group will put forward additional environmental objectives, map and assess corresponding criteria in the two taxonomies.
- ❑ **Transition considerations:** The working group will work to evolve more transition considerations and activities, to enable the transition of high emissions activities.
- ❑ **New areas of alignment** in existing activities where mapping alignment was challenging, and more research work needed to understand possible commonalities. The working group assessed 80 activities in total, there are 19 of them are still pending for further analysis.
- ❑ **Other eligible features:** features such as DNSH and minimum safeguards would be considered in the future stage to strengthen the comparability and interoperability.
- ❑ **Other jurisdictions:** Other finalized taxonomies could be added to the current analysis.



The Hong Kong Monetary Authority (HKMA) intends to take the Common Ground Taxonomy as reference to design its tailored sustainable finance taxonomy according to its own economic structure. By referring to the common ground taxonomy, Honk Kong is expecting to participate more actively to the international green capital flows.



# Painkiller to taxonomy headaches

Our opinions on the GCT 

## Natixis' view on the CGT

### Usability

The CGT is very much welcome; however, the usability is limited for the moment with several of its shortcomings:

- **Explanations are not provided on the scenario chosen** (absence of justifications), readers must “blindly trust” the text without disclosure about the underlying information and specific criteria leading to pick a scenario rather than another.
- **Overlap in terms of activity or sector perimeter and overlap regarding criteria should be distinguished.**
- **Stringency and granularity are mixed up** while they should not.
- For future to involve more environmental objectives and activities, the working Group might consider to develop a “CGT compass”, similar to the EU taxonomy compass, in order to further enhance the usability.

### Suggested layout for CGT activities' table

CGT Number and Activity Name	
Description and its source	
Scenario selected	
Substantial contribution criteria	
Explanations	
Additional notes	

### Other taxonomy features: DNSH

- As mentioned by the working group, DNSH principles will be taken into account in the next steps. We strongly agree with it.
- In addition, we suggest the working group to **carry out a mapping on DNSH from different jurisdictions.**
- It would be also helpful to provide a set of principles for developing international aligned and comparable DNSH.

### Additional activities

- We suggest the working group to incorporate “**mineral processing**” in addition to those already included (beyond aluminum and steel & iron), given the critical role of minerals in the transition.
- Inclusion of the pending activities such as **plastics manufacturing** are welcome.

# Monitoring, reporting & verification of green bonds

Another headaches on disclosure

	Green Financial Bonds	Green Corporate Bonds	Green Enterprise Bonds	Green Debt Financing Instruments
<b>Regulatory authority</b>	PBoC	CSRC	NDRC	NAFMII
<b>Taxonomy</b>	<b>China Green Bond Endorsed Projects Catalogue (2021 Edition)</b>			
<b>Monitoring</b>	✓ <ul style="list-style-type: none"> <li>In a separate account for use of proceeds monitoring.</li> <li>100% proceeds are required to allocate to green projects.</li> </ul>	✓ <ul style="list-style-type: none"> <li>In a separate account for use of proceeds monitoring.</li> <li>At least 70% proceeds are required to allocate to green projects.</li> </ul>	✗ <ul style="list-style-type: none"> <li>No specific requirement on use of proceeds monitoring</li> <li>At least 50% proceeds are required to allocate to green projects.</li> </ul>	✓ <ul style="list-style-type: none"> <li>In a separate account for use of proceeds monitoring.</li> <li>100% proceeds are required to allocate to green projects.</li> </ul>
<b>Reporting</b>	✓ Annual and quarterly disclosure (templates provided by PBoC, <a href="#">available here</a> )	✓ Annual disclosure	✗ No specific requirement	✓ Semi-annual disclosure
<b>Verification/assurance</b>	Encouraged	Encouraged	No specific requirement	Encouraged
<b>Comments</b>				
<ul style="list-style-type: none"> <li>Since July 2021, when the Green Bonds Endorsed Projects Catalogue (2021 Edition) came into effect, the definitions of green bond have been unified, but the proportion allocated to green projects varies, as well as the information disclosure requirements. This has greatly reduced the credibility and transparency of green securities.</li> <li>MRV regulations for green financial bonds remain to be the most stringent and accessible to public, whereas the quality of information disclosure of green corporate and enterprise bonds is relatively low.</li> </ul>				

# State of ESG disclosure

New trends on ESG disclosure standards harmonization?

## Trends



- Transparency is the bedrock of sustainable finance activities and relevant ESG disclosure of quality is becoming an imperative.
- There are increasing regulations on mandatory entity-level ESG disclosure across APAC. However, the reporting standards, contents and scopes are varying, it leads to another fragmentation.
- The absence of widely recognized disclosure standards will be an impediment for the growing sustainable finance market.
- Beyond consistent taxonomies, a set of comparable sustainability disclosure standards is growing as a new urgency.

	China Mainland	Hong Kong SAR	Singapore	EU
<b>Entity level</b>	✓	✓	✓	✓
<b>Applicable scope</b>	Mandatory for companies of high pollution, listed in SZSE 100 Index, etc	Listed Companies	Listed companies and selected financial institutions	Large public interest entities with more than 500 peoples
<b>Legal implication</b>	Mandatory	Combination of mandatory and “comply or explain”	Mandatory	Mandatory
<b>Financial products and service level</b>	✓	✓	✗	✓
<b>Applicable scope</b>	Green financial and corporate bonds	ESG funds	ESG product	Market participants within Sustainable Finance Disclosure Regulation
<b>Legal implication</b>	Mandatory	Mandatory	Planning	Mandatory



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