IPSF Common Ground Taxonomy

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Basic concept: why taxonomy?

Based on China's experience of taxonomy development (three sets of taxonomy since 2013), it is clear that taxonomy provides a foundation for the entire green financial system. As it:

1. Prevents green-washing via providing a basis for labelling/verification
2. Provides a basis for performance measurement and disclosure
3. Provides a basis for allocation policy incentives
4. Provides a basis for product development

A Global Challenge: Proliferation of Taxonomies

- A large number of green/sustainable finance taxonomies have been (and are being) developed by **different jurisdictions and organizations**.
- If developed in silos, the proliferation of taxonomies may exacerbate problems such as, **market segmentation, increased transaction costs (e.g., green verification costs) and risks of green washing** and may undermine efforts to promote cross-boarder green capital flows.

G20 Sustainable Finance Roadmap: 6 principles for alignment

These principles aim to **enhance compatibility, interoperability and consistency of alignment approaches (including taxonomies)**

Action 1: The G20 encourages jurisdictions that intend to develop their own alignment approaches to refer to a set of voluntary principles:

- **Principle 1**: Ensure material positive contributions to sustainability goals and focus on outcomes;
- **Principle 2**: Avoid negative contribution to other sustainability goals (e.g., through do no significant harm to any sustainability goal requirements);
- **Principle 3**: Be dynamic in adjustments reflecting changes in policies, technologies, and state of the transition;
- **Principle 4**: Reflect good governance and transparency;
- **Principle 5**: Be science-based for environmental goals and science- or evidence-based for other sustainability issues; and
- **Principle 6**: Address transition considerations.

G20 Sustainable Finance Roadmap: improving coordination on alignment approaches

Action 2: Improve coordination at the regional and international level to facilitate the comparability, interoperability, and as appropriate the consistency of different alignment approaches, including via work of relevant IOs, and by encouraging:

- Jurisdictions which intend to pursue a taxonomy-based approach to consider developing sustainable finance taxonomies using the same language (e.g., international standard industry classification and other internationally recognized classification systems), voluntary use of reference or common taxonomies, and regional collaboration on taxonomies.

IPSF Working Group on Taxonomy

- IPSF was launched in October 2019 by the European Union, China, Canada, Argentina, Chile, India, Kenya and Morocco.
- Until November 2021, 18 members of the IPSF represent 55% of greenhouse gas emissions, 50% of the world population and 55% of global GDP.

The work of the IPSF is informed by twelve observers

- the Coalition of Finance Ministers for Climate Action
- the European Bank for Reconstruction and Development
- the European Development Finance Institutions
- the European Investment Bank
- the IFRS Foundation
- the International Monetary Fund
- the International Organisation of Securities Commissions
- the Network for Greening the Financial System
- the Organisation for Economic Co-operation and Development
- the United Nations Environment Programme – Finance Initiative
- the United Nations Development Programme
- and the World Bank Group.

IPSF Working Group on Taxonomy

In July 2020, the EU and China initiated the Taxonomy Working Group, co-chaired by the EU and China, joined by IPSF members and observers.

- Co-chairs: Marcel Haag (EC), MA Jun (PBOC)
- Scope of work: undertake a comprehensive assessment of the existing taxonomies for environmentally sustainable investments, including identifying the commonalities and differences in their respective approaches and outcomes.

The Common Ground Taxonomy is…	The Common Ground Taxonomy is not…
✓ An analysis on approaches of the EU taxonomy and China taxonomy, and the methodology for comparing and identifying commonalities and differences between some features of the two taxonomies	- A legal documentation by the EU and China which entails requirement/obligation for either jurisdiction to change their taxonomy.
✓ An evolving tool that may help different actors to understand the types of activities that could be covered under the respective taxonomies within the scope of the comparison exercise	- A single taxonomy or exclusive definition of environmentally sustainable economic activities covering all environmental objectives, such as biodiversity, pollution prevention, etc.
✓ A technical document for voluntary reference by interested parties within the limits of the scope of the comparison exercise	- Covering all eligibility features or all activities in the EU and China taxonomies as explained in the instruction report.
✓ An analytical tool or reference for other jurisdictions to consider when developing their own taxonomies	- A proposal for international standards or legal document that imposes any global standard on other jurisdictions.

IPSF Working Group/Technical Expert Group on Taxonomy

- The WG and the TEG aim to develop a common ground taxonomy initially **based on EU and Chinese taxonomies**;
- The WG maps the current taxonomies into the same language and identifies the overlapping areas of the EU and Chinese taxonomies;
- First version of CGT, including **55 mitigation activities** recognized by other EU and China taxonomies, was released in November 2021. Feedbacks are received and being analyzed;
- The common ground taxonomy could be used by issuers/investors/jurisdictions/other stakeholders in various ways on a voluntary basis.

Current Methodologies of CGT

The methodology underpinning the Common Ground Taxonomy is a very important part of this work.

I. The first stage of the methodology work involved:

- using the EU **Taxonomy Climate Delegated Act** as basis;
- extracting **major climate change mitigation activities** from the China Taxonomy;
- mapping of all activities in both taxonomies **to a neutral code**, i.e. International Standard Industrial Classification, so that they could be more easily compared and aligned;
- **identifying and selecting common activities** that are recognized by both EU and China taxonomies that would significantly contribute to carbon emission reduction or sequestration.

II. The second stage involved evaluating the **detailed description and technical screening criteria** for each line with a scenario based on their overlap.

ISIC MAPPING

NACE

EU

Classification										
ISIC				NACE Macro-Sector	NACE				Activity	
Section	Division	Group	Class		Level 1	Level 2	Level 3	Level 4		
D, F	35, 42	351, 422	3510, 4220	Energy	D, F	D35, F42	D.35.1, F42.2	D35.11, F42.22	Electricity generation using solar	Construction or operation of ele
D, F	35, 42	351, 422	3510, 4220	Energy	D, F	D35, F42	D.35.1, F42.2	D35.11, F42.22	Electricity generation using	Construction or operation of ele
D, F	35, 42	351, 422	3510, 4220	Energy	D, F	D35, F42	D.35.1, F42.2	D35.11, F42.22	Electricity generation from wind	Construction or operation of ele
D, F	35, 42	351, 422	3510, 4220	Energy	D, F	D35, F42	D.35.1, F42.2	D35.11, F42.22	Electricity generation from ocean	Construction or operation of ele
D, F	35, 42	351, 422	3510, 4220	Energy	D, F	D35, F42	D.35.1, F42.2	D35.11, F42.22	Electricity generation from	Construction or operation of ele
D, F	35, 42	351, 422	3510, 4220	Energy	D, F	D35, F42	D.35.1, F42.2	D35.11, F42.22	Electricity generation from	Construction or operation of ele
D, F	35, 42	351, 422	3510, 4220	Energy	D, F	D35, F42	D.35.1, F42.2	D35.11, F42.22	Electricity generation from renewable	Construction or operation of ele
D	35	351	3510	Energy	D	D35	D.35.1	D35.11	Electricity generation from bioenergy	Construction and operation of el
D	35	351	3510	Energy	D	D35	D.35.1	D35.12, D35.13	Transmission and distribution of	Construction and operation of tr
D	35	352	3520	Energy	D	D35	D35.2	D35.21	Manufacture of biogas and biofuels	Manufacture of biogas or biofue
D, F, H	35, 42, 49	352, 422, 493	3520, 4220,	Energy	D, F, H	D35, F42,	D35.2, F42.2,	D35.22, F42.21,	Transmission and distribution	Conversion, repurposing or retro
D	35	353	3530	Energy	D	D35	D35.3	D35.30	District heating/cooling distribution	Construction, refurbishment and
D, F	35, 43	353, 432	3530, 4322	Energy	D, F	D35, F43	D35.3, F43.2	D35.30, F43.22	Installation and operation of electric	Installation and operation of ele
D	35	351, 353	3510, 3530	Energy	D	D35	D35.1, D35.3	D35.11, D35.30	Cogeneration of heat/cool and power	Construction and operation of fa
D	35	351, 353	3510, 3530	Energy	D	D35	D35.1, D35.3	D35.11, D35.30	Cogeneration of heat/cool and power	Construction and operation of fa
D	35	351, 353	3510, 3530	Energy	D	D35	D35.1, D35.3	D35.11, D35.30	Cogeneration of heat/cool and power	Construction and operation of co

ISIC MAPPING

CHINA

ISIC				项目名称 Project	说明/条件 Description/Conditionality
Section	Division	Group	Class		
D, F	35, 42	351, 422	3510, 4220	3.1.1.2 智能电网建设和运营	集成信息、控制、储能等技术以及智能化电力设备，减少弃风弃光，提
D, F	35, 42	351, 422	3510, 4220	3.2.2.1 风力发电设施建设和运营	利用风能发电的设施建设和运营。
D, F	35, 42	351, 422	3510, 4220	3.2.2.2 太阳能利用设施建设和运营	利用太阳能发电的设施建设和运营。包括太阳能光伏发电、太阳能热发
D, F	35, 42	351, 422	3510, 4220	3.2.2.3 生物质能源利用设施建设和运营	以农林废弃物、城市生活垃圾等生物质原料发电、供热，生产燃料乙醇
D, F	35, 42	351, 422	3510, 4220	3.2.2.4 大型水力发电设施建设和运营	对生态环境无重大影响前提下，利用水体势能发电的设施建设和运营。
D, F	35, 42	351, 422	3510, 4220	3.2.2.5 核电站建设和运营	在保障环境安全前提下，利用可控核裂变释放热能，采用第三代和第四
D, F	35, 42	351, 353, 422	3510, 3530, 4220	3.2.2.6 地热能利用设施建设和运营	采用热泵等技术提取浅层地热能（包括岩土体热源、地下水热源、地表
D, F	35, 42	351, 422	3510, 4220	3.2.2.7 海洋能利用设施建设和运营	对海洋生态和生物多样性不造成严重损害的前提下，利用海洋潮汐能、
D, F	35, 42	353, 422	3530, 4220	3.2.2.9 热泵设施建设和运营	空气源热泵、地下水源热泵、地表水源热泵、污水源热泵、土壤源热泵
D, F	35, 42	351, 352, 353, 422	3510, 3520, 3530, 4220	3.2.3.1 多能互补工程建设和运营	针对终端用户电、热、冷等多能消费需求，以提升供能系统综合能效、
D, F	35, 42	351, 422	3510, 4220	3.2.3.2 高效储能设施建设和运营	采用物理储能、电磁储能、电化学储能和相变储能等技术，为提升可再
D, F	35, 42	352, 422	3520, 4220	3.2.3.3 天然气输送储运调峰设施建设和运营	天然气长输管道、储气库、支线管道、区域管网，以及液化天然气（LN
D, F	35, 42	351, 352, 353,	3510, 3520,3530, 4220	3.2.3.4 分布式能源工程建设和运营	天然气热电冷三联供、分布式可再生能源发电、地热能供暖制冷等分布
D, F	35, 42	351, 422	3510, 4220	3.2.3.5 抽水蓄能电站建设和运营	为提高电网对风电、光伏发电等间歇性可再生能源电力消纳能力，提升
D, F	35, 42	353, 422	3530, 4220	5.1.1.1 城镇集中供热系统清洁化建设运营和改造	采用低品位工业余热热源、热电联产热源或采用电、天然气等清洁能源
D, F	35, 42	351, 422	3510, 4220	5.1.1.2 城镇电力设施智能化建设运营和改造	城镇电力需求侧管理平台开发建设，城镇配电网技术改造，用电设备智
D, F	35, 42	351, 353, 422	3510, 3530, 4220	5.1.1.3 城镇一体化集成供能设施建设和运营	多能互补利用设施、分布式供能设施或系统、智能微网等城镇一体化集

Contents

This table is pending further analysis and may be complemented with additional activities and/or clarifications. The table is a reference tool for the identified common ground within the scope of the instruction report.

Snapshot: Common Ground Taxonomy Table

Use of CGT

Tool for comparing different taxonomies

- CGT report provides a tool for comparing different taxonomies. CGT report shows the methodologies for comparing different taxonomies and methods for producing a common taxonomy based on a few taxonomies. In particular, it gives an example on how to convert different taxonomies developed using different classifications (or languages) into the same languages, and on how to identify the overlapping areas of economic activities.

For developing green financial products

- CGT can be used by interested parties, including market participants, on a voluntary basis, for developing green financial products. For example, Chinese issues wanting to issue green bonds or other green assets in Europe/international markets can consider using CGT; EU issuers can issue green bonds in China using CGT. In December 2021, CCB became the first issuer issuing CGT labelled green bond.

Use of CGT (cont.)

Reference for developing taxonomies

- CGT can be used by other jurisdictions which intend to develop their own taxonomies as a reference.

Baseline building block

- We can consider the possibility of using a building block approach to promote the harmonization of global taxonomies, and in that case, CGT can be used as the baseline building block, and based on that jurisdictions can add other blocks reflecting their domestic policy priorities.

The market’s positive response to CGT

In December 2021, China Construction Bank issued its first SOFR-linked dollar green bond in the international market using the CGT label.

The market’s positive response to CGT

Natixis organized webinars (English and Mandarin) on CGT.

WG also received nearly 20 written feedbacks

Moody's Corporation

London
Stock Exchange Group

Implemented by

What can be done by IPSF taxonomy WG & TEG in future?

Finalize the current version of CGT based on feedbacks received

- The consultation period for the first version of CGT report ended on 14 January 2022. The feedbacks received (from nearly 20 organizations) are being analyzed by the TEG. The TEG is also looking at some of the pending activities (e.g. buildings, manufacturing). Certain amendments will be made to the first CGT report (in particular its annex). We aim to publish the revised version at end March 2022.

Cover more environmental objectives

- Current CGT only covers climate change mitigation activities, as EU parliament has only approved the Climate Delegated Act of EU Taxonomy. After EU parliament approval of other Acts that cover areas such as environment, circular economy, and biodiversity, the Working Group will expand the coverage of the CGT accordingly.

What can be done by IPSF taxonomy WG & TEG in future?

Expand analysis to include more taxonomies and refine methodologies

- Extending the comparison to other taxonomies with the aim to testing and refining the current CGT methodology. Singapore (MAS) has expressed its willingness to include its taxonomy in the CGT comparison exercise.

Promote global interoperability

- We could explore ways to promote the adoption of the common principles for taxonomies, usage of the same language (e.g. ISIC) in developing taxonomies, and the feasibility of a “building block approach” in promoting regional and global taxonomy interoperability.

Thank you!