

24 February 2022

Consultation responses to IPSF Common Ground Taxonomy Summary

Intro

Respondents from 4 business associations, 1 international trade union, 9 companies/business organisations, and 3 NGOs provided feedbacking online using the template published in November 2021. The respondents are located in Belgium, China (Hong Kong SAR), France, Germany, Luxembourg, Netherlands, Switzerland, UK and USA.

The IPSF and the Taxonomy Working Group co-chairs would like to thank the respondents for providing their feedbacks to the consultation. The organizations of the respondents are listed below (or in the end of the summary)

Business associations:	Companies/business organisations	NGOs
<ul style="list-style-type: none"> • UN PRI • Global Financial Markets Association (GFMA) • The World Federation of Exchanges • Fédération Bancaire Française • International Capital Market Association (ICMA) 	<ul style="list-style-type: none"> • Société Générale • London Stock Exchange Group (LSEG) • Moody's Corporation • Deutsche Gesellschaft für internationale Zusammenarbeit (GIZ) GmbH • Standard Chartered Bank • Groupe BPCE • ISS Institutional Shareholder Services • Invesco • TÜV Rheinland Group 	<ul style="list-style-type: none"> • E3G - Third Generation Environmentalism • Institutional Investors Group on Climate Change • Zero Waste Europe

Global stocktake of responses

Commonalities:

1. The **respondents welcomed and appreciated the CGT work as the first attempt to mitigate the fragmentation of taxonomies**. The CGT's identification of some of the commonalities between the European and Chinese taxonomies and the methodology for ascertaining those commonalities is praised as a useful and meaningful work as a first step towards international convergence. The IPSF's CGT analysis is very thoughtful and has met its intended objective at this stage. It provides a comprehensive overview of the EU Taxonomy and China Catalogue, highlighting their main overlaps and differences, and the mapping with ISIC is useful for navigating economic activity classification systems in different jurisdictions. It is a good starting point of a conceptual framework for comparing taxonomies globally and building compatible taxonomy data solutions for the global financial market. The CGT work, a material step towards greater international cooperation, is in line with the G20 Sustainable Finance Roadmap.
2. Most respondents acknowledged that **the CGT should remain as a dynamic tool**, which can be used as a benchmarking reference for jurisdictions and organizations considering developing their own taxonomies to scale up sustainable finance practices. Besides, some respondents see merits in the development of commonly agreed taxonomy principles or guidelines that could guide the future expansion of CGT coverage. Such principles would aim at answering the question of whether a given activity in a cross-border transaction would satisfy the various taxonomies that could apply. The development of such commonly agreed principles and their mutual recognition is the most frequently suggested way of improving the interoperability of taxonomies.
3. Most respondents see **merit in various kinds of extension of the CGT taxonomy**. Extensions were suggested to adaptation, to transition using pathways, to DNSH, to minimum safeguards on social, to other environmental objectives than climate change mitigation, to other sectors like manufacturing, ICT, mining, hard to abate sectors like shipping and manufacturing, cryptocurrencies, agriculture, biodiversity, water stewardship, energy efficiency for household appliances.
4. Most respondents suggest improving the underlying methodology in the future CGT work to improve usability, clarify interoperability of activities, through more sophisticated analysis and leveraging existing ESG data models and sustainability reporting framework and other related standards.
5. Most participants expressed the importance **on science based and alignment to 1°5 objectives** and pathways as desirable objectives.
6. Many respondents also **see merit in developing common metrics**, while thresholds could differ according to local circumstances. Many insist on the necessary simplicity for optimal usability. Some respondents suggest that a common taxonomy could be principled based, and equivalence granted on the basis of principles rather than thresholds. Some respondents mentioned that transition is better approached through target setting goals rather than thresholds/criteria. Many insist on the need for a practically operable and interoperable taxonomy, with the CGT output sometimes described as not of direct practical use in terms of usability or comparability.

Salient points:

1. Some respondents suggest that the CGT works on **a public database for technical screening criteria** across jurisdictions, supporting the development of taxonomies globally. Some respondents would also see the merit of a database of taxonomy relevant data.
2. Some respondents suggest that CGT should look at **environmental benefits/objectives beyond climate change mitigation**, because there are products and services which can deliver environmental benefits across multiple environmental objectives such as pollution control and resource efficiency, as indicated by the China taxonomy, the FTSE Russell Green Revenues Classification System – GRCS, and other green classification system. And a well-designed CGT should also support improved quality and consistency of data to enable

investors to compare the relative sustainability performance of companies and to inform investment decision-making.

3. Some respondents **link the work of the IPSF CGT to the evolution towards adoption of internationally adopted reporting standards**, as a global baseline of standardized decision useful metrics for corporates. Taxonomy could be integrated in sustainability reporting. Taxonomy alignment could provide the necessary momentum to improve the quality of reported data.
4. Some respondents see **a role for the IPSF CGT work in supporting international cooperation** in addressing difficult challenges of the transition. Some suggested that the development of a globally interoperable taxonomy be positioned under a global governance body such as the UN or the WTO.
5. Several respondents indicate they **do not fully understand the concept of “overlap”** as mentioned in the CGT report. One respondent mentioned the need to differentiate “overlap” for criteria and for activity.
6. Several respondents question the use of the wording “scenario” in the report. Several respondents requested for a stronger justification/explanation of underlying scenarios and providing scientific evidence to proposed criteria.
7. One respondent asked to **clarify the concept of interoperability**.
8. One respondent asked to clarify the scope of CGT and further CGT work: activity, entity or project level. One other respondent suggested developing entity level taxonomy principles beyond use of proceeds, and one suggested to establish a taxonomy for government bonds.

Responses to individual questions

Question 1. Does the current CGT provide a useful reference for you/your organisation?

- All respondents but two responded positively.
- Six respondents questioned the practical usability for them.

Question 2. How can the CGT be taken forward to enhance comparability and interoperability of sustainable finance taxonomies globally?

- All participants underlined **their need for an interoperable framework** and their desire to see the CGT work in this field.
- One respondent asked for a definition of interoperability.
- **Only one participant mentioned adding more geographies** to the CGT work. Most respondents mentioned the development of a mutually accepted core of globally consistent definitions and principles that would allow for the respect of national differences. One participant mentioned the possibility of positioning this work under the auspices of a global organization such as UN or WTO. Some referred to Article 2 to 4 of the G20 WGSF report (two), another three participants referenced the BIS October 21 report on principles for effective taxonomies.
- Six participants **advised to develop DSNH criteria, or DSNH equivalent, and/or minimum social safeguards** as a way to enhance comparability/interoperability. Two respondents referred to using NDCs and country specific thresholds. Most participants insist on science based and alignment to 1°5 objectives and pathways as desirable objectives.

Question 3. What could be other pathways/methods to identify additional globally eligible activities?

- Many respondents asked for **transition objectives to be included**, and some for a **“red” classification**. One suggested a threefold classification: aligned with net zero, on a pathway to net zero, not aligned with net zero.
- Respondents **welcome the objective of science- based alignment with 1°5 degrees** and/or net zero objectives, with pathways. Two respondents suggested to use NDCs to identify pathways and thresholds per country. Several respondents requested clarifications on the notion of overlap in the CGT, on the notion of scenarios and asked for more justification for the science-based nature of some of the CGT criteria.

Question 4. What other eligible activities would be useful to you/your organisation if included?

- Respondents suggested **many additional activities to be included**: manufacturing, ICT, cryptocurrencies, mining, hard to abate sectors such as shipping and manufacturing, energy efficiency for households, water stewardship, agriculture, biodiversity.
- Several respondents **quoted ISIC codes as a desirable reference** point for classification.

Question 5. What is your expectation for future developments of the CGT e.g. inclusion of: other taxonomy features, other environmental objectives, other jurisdictions' taxonomies etc.?

- Many respondents **suggested adding more environmental objectives to Substantial contribution** to climate change mitigation. Several participants stated the need for an adaptation taxonomy.
- Many asked for **DSNH** to be included, including a mapping of DSNH criteria, and an international proxy for EU taxonomy DNSH criteria. One respondent suggested examining sustainability-focused classification and labelling systems such as the Roundtable on Sustainable Palm Oil, the Forest Stewardship Council and similar initiatives; also research into missing ESG data by the Future of Sustainable Data Alliance (FoSDA) for data gaps.
- In terms of jurisdictions, only one respondent **suggested to move forward by adding geographies**. Most respondents suggested to **develop commonly agreed taxonomy principles** that could be used for cross border investments across a large number of jurisdictions. Such principles would aim at answering the question of whether a given activity in a cross-border transaction would satisfy the various taxonomies that could apply. Several respondents quoted sections 2-4 of the G20 Working Group on Sustainable Finance Report and the BIS October 2021 report on principles for developing effective taxonomies. Many insist on the need for a practically operable and interoperable taxonomy, with the CGT output sometimes described as not of direct practical use in terms of usability or comparability.
- Some suggested **inclusion of minimum social safeguards**, possibly aligned with the EU taxonomy.
- One respondent mentioned the need to clarify usage of the CGT in terms of activities versus entities versus project. One respondent asked to clarify the use of CGT per asset classes and another one suggested expanding the CGT to government bonds.

Question 6. How could the presentation of CGT be improved to meet your expectations?

- The presentation was welcomed by all respondents.
- Several participants suggest that the CGT works on a **public database for technical screening criteria across jurisdictions**, so as to support the development of taxonomies globally. Some respondents would also see the merit of a database of taxonomy relevant data.
- Some also suggested that the CGT **highlights best practice** among various taxonomies.