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International Platform on Sustainable Finance

Common Ground Taxonomy

Overview and its evolution - Knowledge sharing session

This activity is part of the EU Climate Dialogues (EUCDs) project

Climate Bonds INITIATIVE

Capacity Building
Alliance of Sustainable Investment CASI

ambire
GLOBAL



Common Ground Taxonomy – knowledge sharing

- **Welcome remarks |**
 - Lucia Marin, IPSF Secretariat
 - Silvia De Iacovo, European Commission
 - Cheng Lin, CASI*

*CASI – Capacity-building Alliance of Sustainable Investment;

CASI's founding members: AIB, HSBC, Standard Charter, SilkRoadFund, Hong Kong Monetary Authority, Neuberger Berman, CFA Institute, IFS

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1. Introduction: Benefits of developing a taxonomy
2. Rationale for interoperability of taxonomies
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4. Phase one of the CGT and new developments
5. Existing use cases of CGT by jurisdictions
6. Q&A

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Benefits of developing a taxonomy

- **Introduction |**

Zofia Wetmańska, Climate Bonds Initiative

Dr. Bolu Wang, IPSF CGT China TEG Lead



G20 SFWG: Sustainable Finance Roadmap



G20 Sustainable Finance Roadmap

7 October 2021

FOCUS AREA 1: MARKET DEVELOPMENT AND APPROACHES TO ALIGN INVESTMENTS TO SUSTAINABILITY GOALS

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.

Organisations and G20 Groups conducting relevant work: FC4S, IFCSBFN, IMF, IPSF, IOSCO, ISO, NGFS, OECD, UNDESA, World Bank G20 Groups: IWG, SFWG

Timeline: Long-term (2022-2025)

A Taxonomy is a tool to classify activities

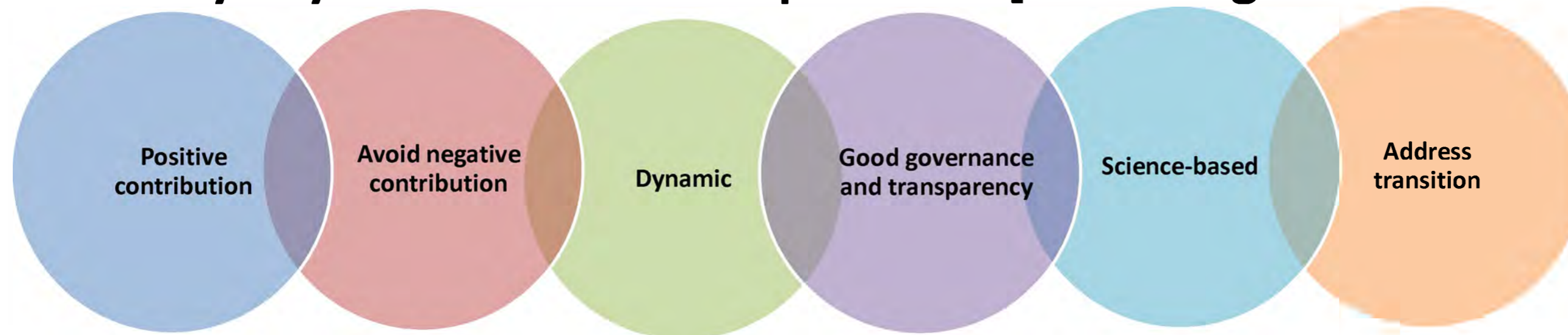
A Taxonomy is:

- a list of environmentally sustainable economic activities that entails associated eligibility criteria.

A Taxonomy is not:

- a rating of good or bad companies,
- a mandatory list to invest in, making a judgement on the financial performance of an investment - only the environmental performance.

Taxonomy key features and best practices [according to the EU & G20]:



Pros and Benefits

Green guidance

Taxonomies act as guidance for the financial sector, governments and companies. Provide clarity and a common language on what is green. It helps avoid green washing.

International capital flows

Enables the flow of international capital for green projects. Alignment with international definitions facilitates the capital flow.

Improved resilience

Taxonomy helping improve companies' resilience in the face of sustainability-related risks

Rule-set for incentives

Taxonomies could serve as rule-set for the government to develop incentives such as tax benefits and subsidies.

Trade relations

Aligning with international definitions, especially with those of trade partners will have positive impacts on trade. This will ensure compliance with criteria for sustainable investments and facilitate cross border capital flows.

Paris agreement and SDGs

Taxonomies help redirect investments into green and sustainable projects that are aligned with the Paris agreement goals and SDGs.

Taxonomy Users & Applications- Regulators

Governments and policymakers

Encourage and regulate local markets to identify, evaluate and promote sustainable investments

Facilitate the development of a pipeline of green projects in accordance with national priorities for environmentally sustainable development

Facilitate new climate – or sustainability – related reporting and disclosure guidelines for financial market actors or enhance existing ones

Measure financial flows toward sustainable development priorities at the asset, portfolio, institutional, and national levels

Avoid reputational risk by preventing “green-washing” and improving transparency for investors to make informed decisions.

Taxonomy Users & Applications- Financial Markets

Financial institutions

Develop and offer green services and products (such as loans, credits, and guarantees) more easily and consistently

Boost efficiency of green finance (lending and funding operations)

Lower transaction costs through faster identification and verification of eligible assets

Reduce uncertainty and reputational risk

Understand and disclose exposure to sustainable investments as required by regulators

Taxonomy Users & Applications- Financial Markets

Investors and asset managers

Ensure compliance and transparency of environmental impacts of investments with disclosure obligations

Identify opportunities that comply with sustainability criteria for high-impact investments

Understand the exposure of portfolios to green investments

Design investments policies aligned with the preferences of clients and beneficiaries

Support investor engagement with investees on business models and transition plans

Taxonomy Users & Applications- Real Economy

Non-financial institutions

**Corporate strategic
decision-making, reporting
and disclosures**

**Develop financial products
and projects that can be
identified as
environmentally sustainable
according to the taxonomy
definitions**

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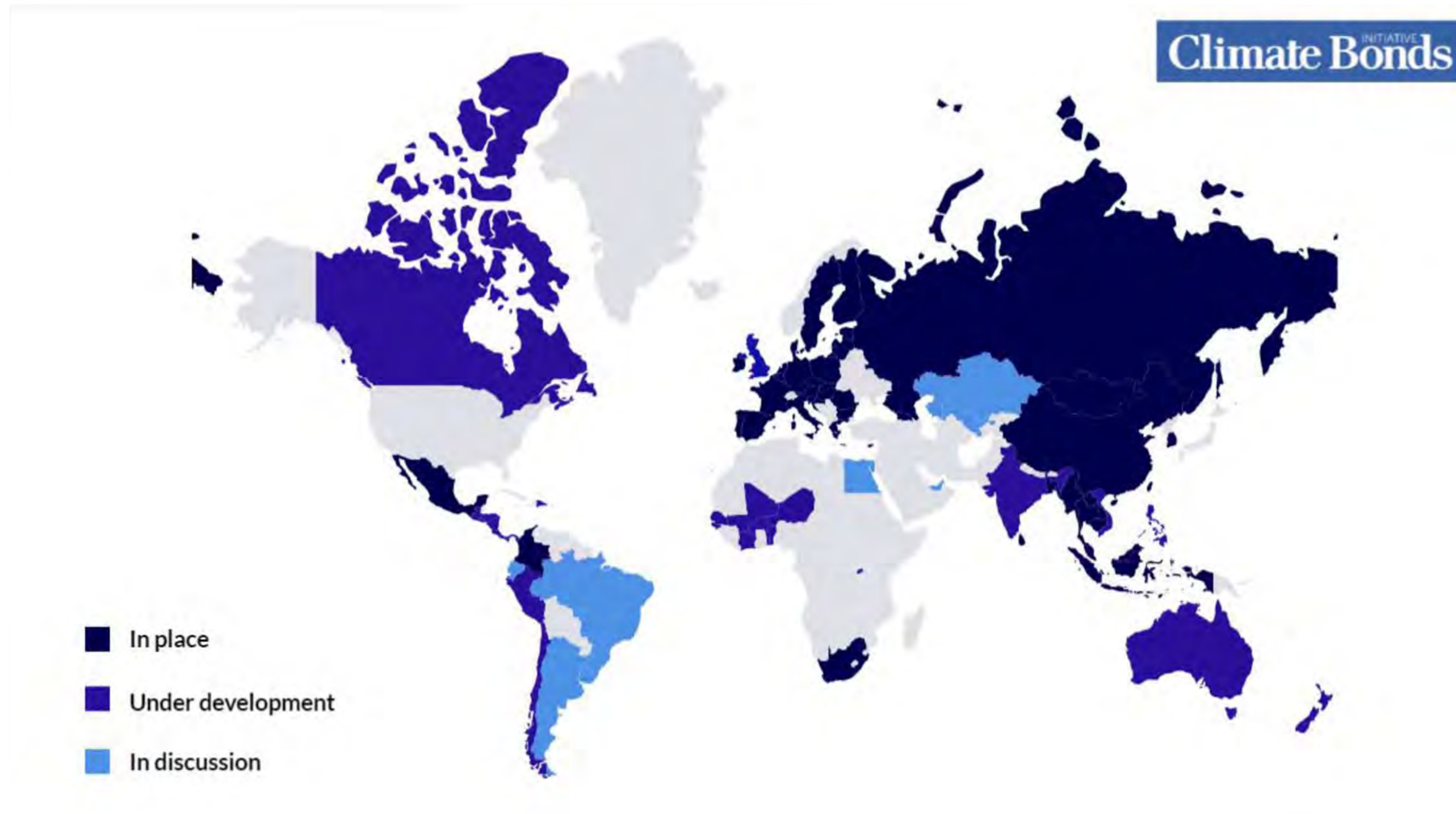
Interoperability of taxonomies

- **The rationale |**

Bridget Boule, Climate Bonds Initiative



Taxonomy: Global Development



Source: CBI, 2023

Need for interoperability

Ensures harmonisation of structure and framework with other taxonomies globally so that they are aligned in principle and use similar methodologies to achieve the climate and environmental objectives

Brings clarity and transparency between approaches and ultimately reduces the cross-border cost of environmentally sustainable investments for international investors

Provides a solid foundation to compare taxonomies and promotes the decarbonisation of the region's economy and avoids market fragmentation

What is interoperability

Taxonomies need to reconcile global net-zero pathways with national/regional priorities

While resulting differences in taxonomies are thus unavoidable, there is a strong need to embed in taxonomies solutions aimed at increasing their interoperability and enhancing their usability for international investors

To ensure interoperability taxonomies must be based on:

- Similar guiding principles
- Have similar design and structural elements (e.g. environmental objectives, sectoral structure and activity focus, substantial contribution criteria, other alignment components (e.g. DNSH, Minimum Safeguards))
- Employ similar approaches and methodologies used for defining eligibility (*e.g. same/comparable metrics*)
- *Incorporate international best practices and standards*

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Common Ground Taxonomy

- **The background**

Zofia Wetmańska, Climate Bonds Initiative

Dr. Bolu Wang, IPSF CGT China TEG Lead



International Platform on Sustainable Finance

IPSF Taxonomy Working Group

Co-Chairs: European Union and China

Scope:

- In depth comparison of existing taxonomies of the IPSF members
 - Identify commonalities and differences among existing sustainable investment taxonomies.
 - Established in 2020 by the EU and China as the most advanced jurisdictions in taxonomy development.
 - Initially focused on climate change mitigation activities and substantial contribution criteria. First report released in November 2021, later revised in June 2022 to include 72 shared activities.
- In 2023 the work has been expanded in scope and coverage, in view of enhancing cross-border interoperability
 - Update the comparison methodology to more jurisdictions and for additional environmental objectives
 - Mapping Do No Significant Harm provisions in targeted IPSF jurisdictions
 - Knowledge sharing projects

The Common Ground Taxonomy

The Common Ground Taxonomy is...	The Common Ground Taxonomy is not...
<ul style="list-style-type: none"> ✓ 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 	<ul style="list-style-type: none"> - A legal documentation by the EU and China which entails requirement/obligation for either jurisdiction to change their taxonomy.
<ul style="list-style-type: none"> ✓ 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 	<ul style="list-style-type: none"> - A single taxonomy or exclusive definition of environmentally sustainable economic activities covering all environmental objectives, such as biodiversity, pollution prevention, etc.
<ul style="list-style-type: none"> ✓ A technical document for voluntary reference by interested parties within the limits of the scope of the comparison exercise 	<ul style="list-style-type: none"> - Covering all eligibility features or all activities in the EU and China taxonomies as explained in the instruction report.
<ul style="list-style-type: none"> ✓ An analytical tool or reference for other jurisdictions to consider when developing their own taxonomies 	<ul style="list-style-type: none"> - A proposal for international standards or legal document that imposes any global standard on other jurisdictions.

Value of a Common Ground Taxonomy

- **Transparency** to all investors and companies by acting as a common reference point for understanding of certain features of sustainable investments across IPSF jurisdictions.
- **Voluntarily** adopted by green bond issuers, or jurisdictions to reduce cross-border transition costs
- **Reduce transaction costs** and facilitate cross-border green capital flows.
- **Common methodology** for the global green and sustainable finance market thus improving comparability of different taxonomies frameworks and reducing greenwashing risks
- It will **facilitate further work of policy makers** on the ways to narrow the differences and inform other international partners including international standard setters for their work on sustainable finance tools and standards.

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Phase one of the CGT

- **Overview of existing results**

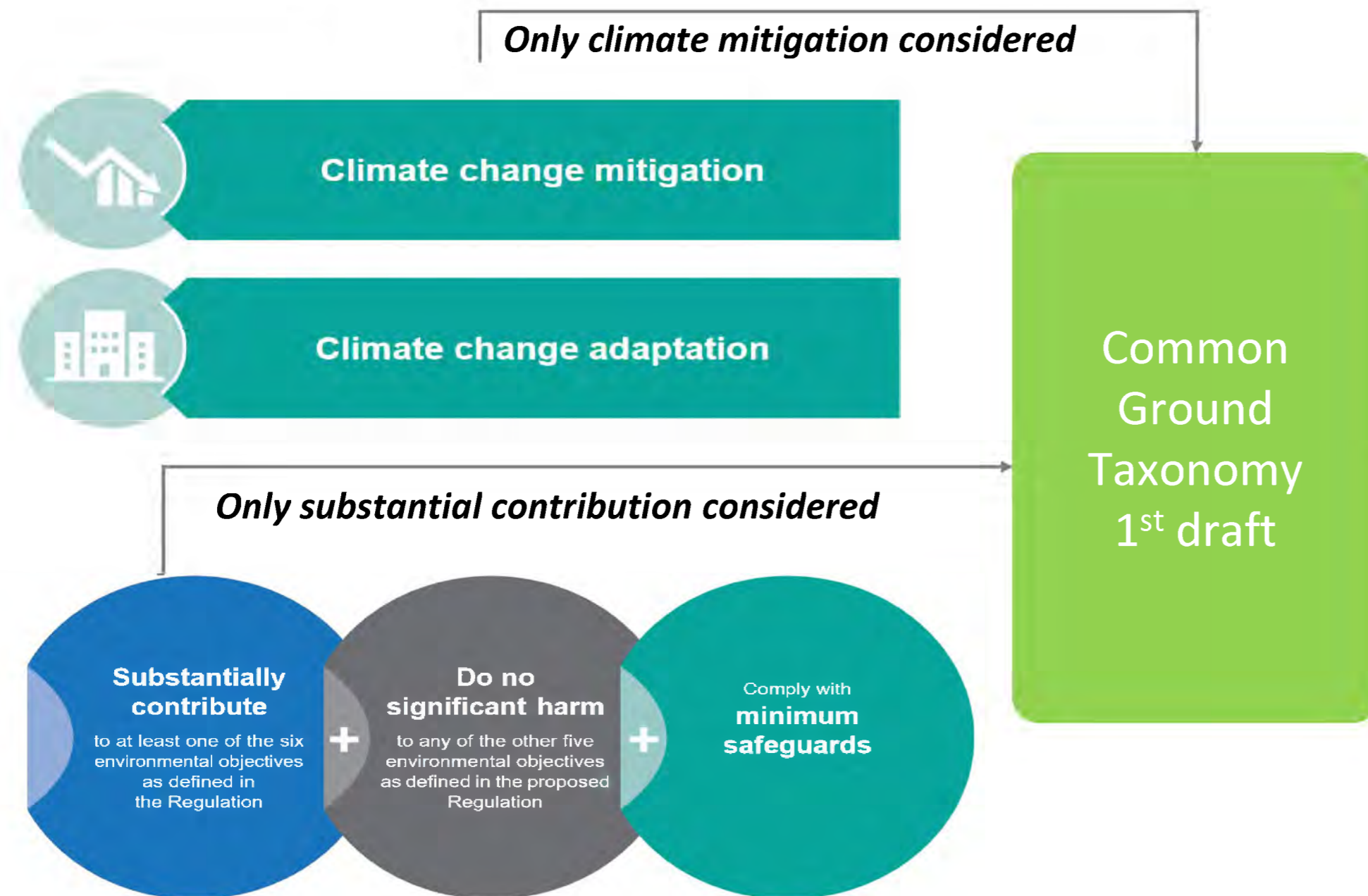
Bridget Boule, Climate Bonds Initiative

Dr. Bolu Wang, IPSF CGT China TEG Lead

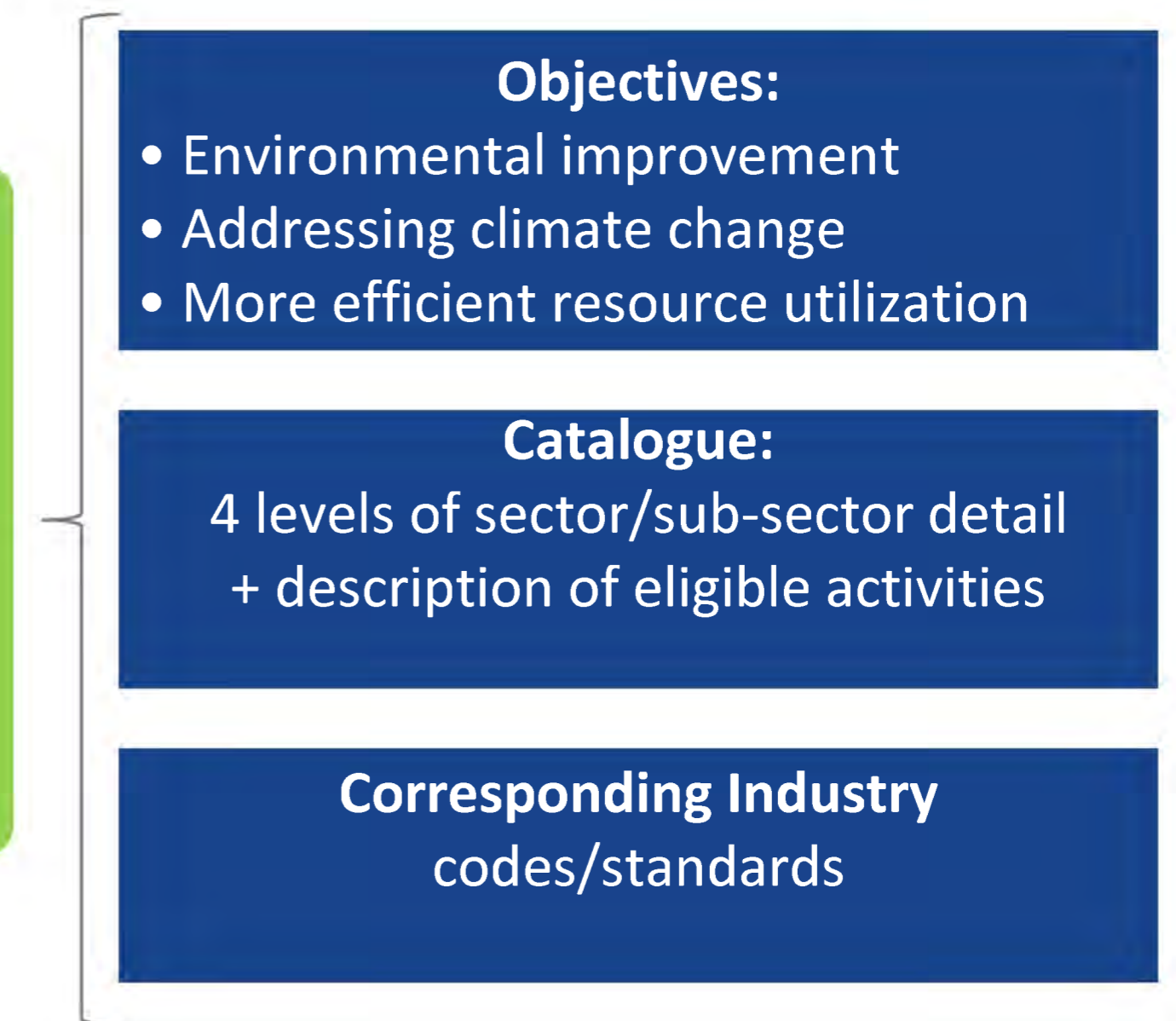


Coverage of Common Ground Taxonomy - Climate

EU Taxonomy



China Green Bond Endorsed Project Catalogue



Benefits of using ISIC as reference nomenclature

- Classifies based on primary **productive activities**
- **International** system can be applied to all activities/jurisdictions
- It enables **jurisdictions** to communicate “green” actions by **using the same language**, therefore enhances comparability, interoperability and consistency.
- It is a “**neutral code**” maintained by the **UN Statistics Division**, ensuring **equality** in geographic and sectors coverage, stable and could be updated per global needs.
- It is a scientific nomenclature that are **mutually exclusive and collectively exhaustive** with **unambiguous scope**
- It has instruction on how to **identify the principal activity** of a unit using the top-down method, enhancing usability

Box 1

Example: Identifying the principal activity of a unit using the top-down method

A reporting unit may carry out the following activities:

Section	Division	Group	Class	Description of the class	Share of value added (percentage)
C	25	251	2512	Manufacture of tanks, reservoirs and containers of metal	7
		281	2816	Manufacture of lifting and handling equipment	8
	28	282	2821	Manufacture of agricultural and forestry machinery	3
			2822	Manufacture of metal-forming machinery and machine tools	21
			2824	Manufacture of machinery for mining, quarrying and construction	8
29	293	2930	Manufacture of parts and accessories for motor vehicles	5	
G	46	461	Wholesale on a fee or contract basis	7	
		465	Wholesale of other machinery and equipment	28	
M	71	711	7110	Architectural and engineering activities and related technical consultancy	13

Objective and sector focus

- The current CGT serves the climate change mitigation objective
- Prioritize **six impactful sections** (GHG emission and bond market size)

Mapping of the EU and China activities under six impactful ISIC sections

A: Agriculture, forestry and fishing

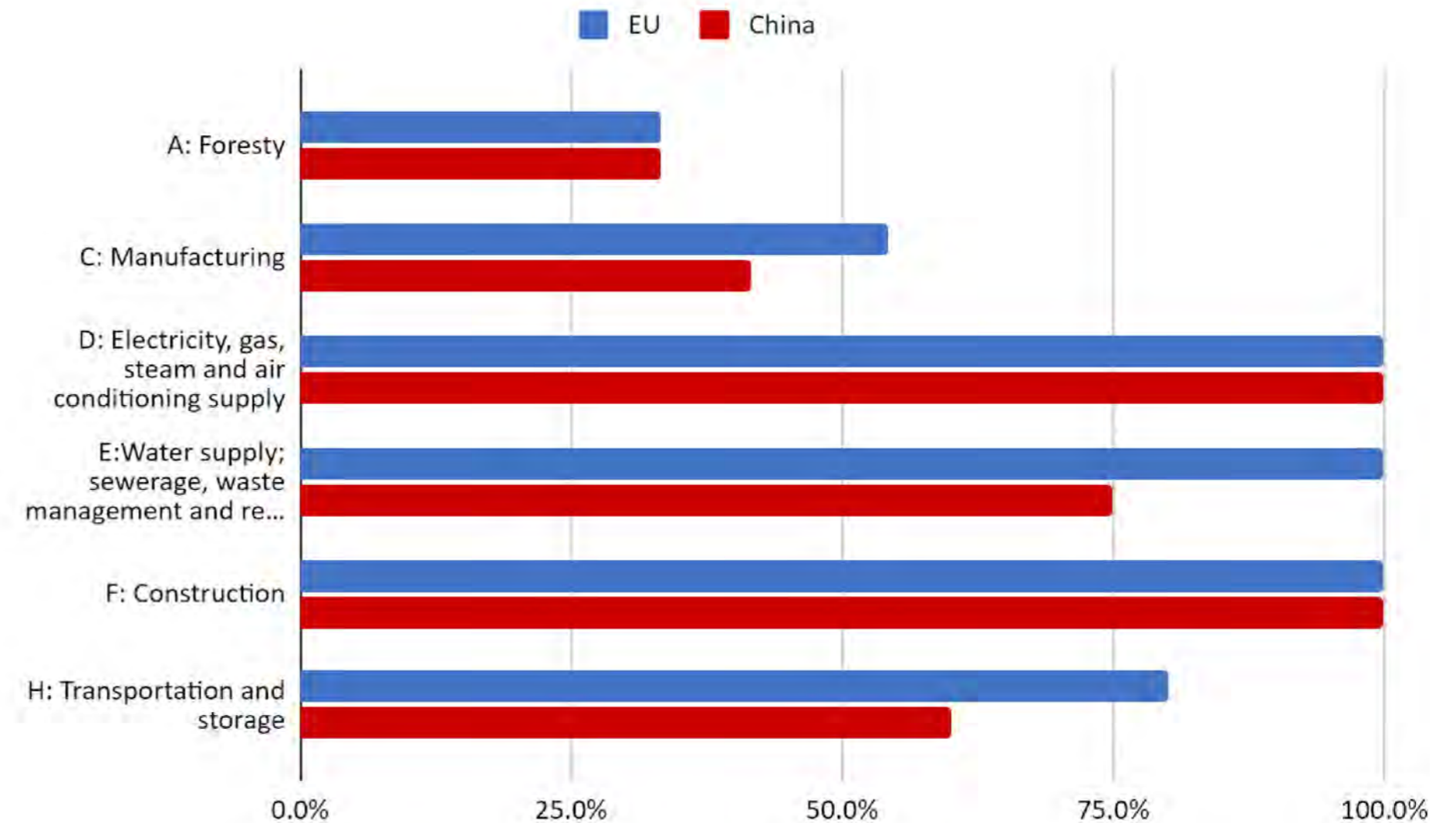
C: Manufacturing

D: Electricity, gas, steam & air conditioning supply

E: Water supply, sewerage, waste management and remediation activities

F: Construction

H: Transportation and storage



Methodology Recap

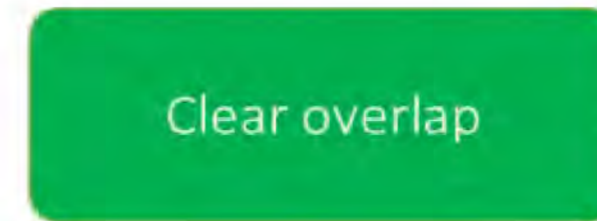
1
Map all activities to a common code (ISIC)



2
Compare TSC and detailed description to attribute each line a scenario

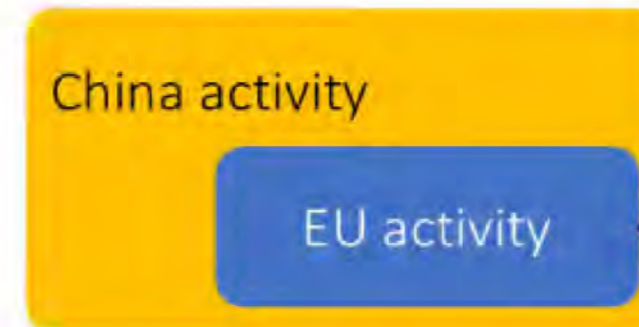


Scenario 1



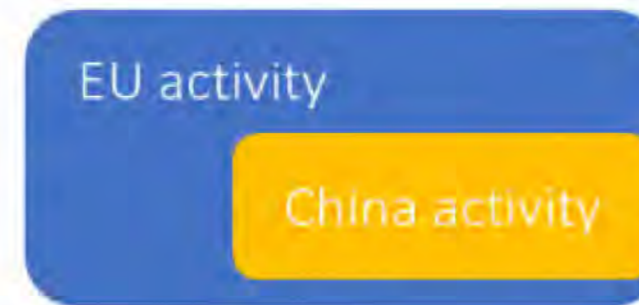
Common activity is the same across both

Scenario 2:



Common activity is to use EU definition/criteria

Scenario 3



Common activity is to use China definition/criteria

Scenario 4



Common activity is to use both criteria where possible or excluded if technically difficult

Scenario 5



Excluded

Challenges and lessons learned

Challenges

- Two very different methodological approaches
- No common code / economic activity classification system
- Different starting points for criteria development: avoid harm, best in class vs Paris-aligned pathway
- Complexity and usability concerns (esp. when it comes to qualitative criteria)

Lessons learned

- Reference to local legislation / codes but also map to common code as a useful starting point - ISIC
- Common metrics will enhance usability and understanding how criteria compare
- Quantitative thresholds are easier to compare than qualitative

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New Developments in CGT

- **Evolution of CGT**

Prateek Kumar, Ambire Global

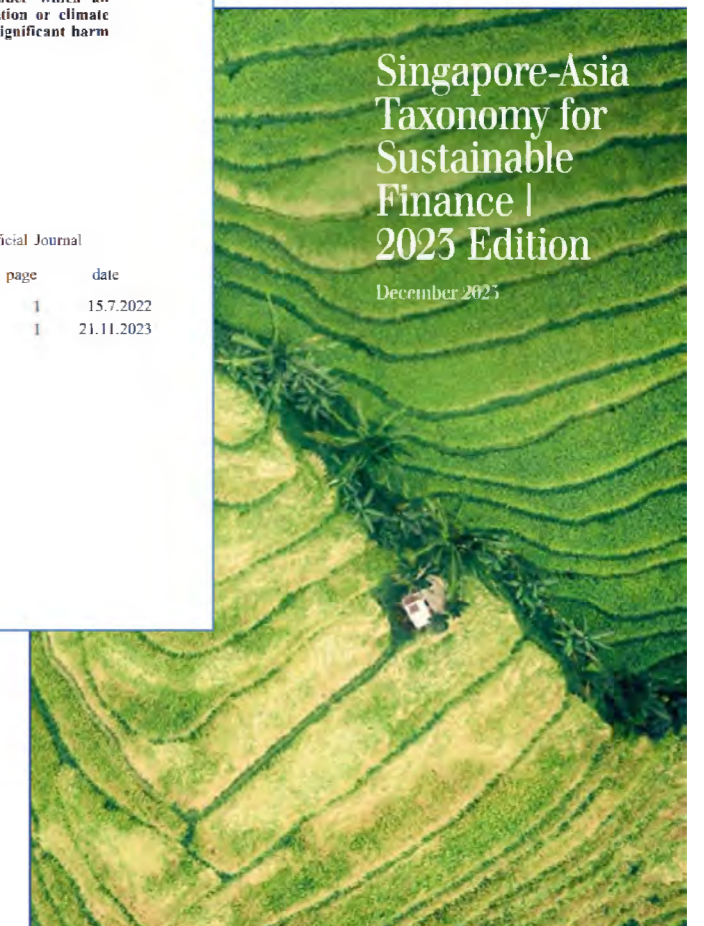
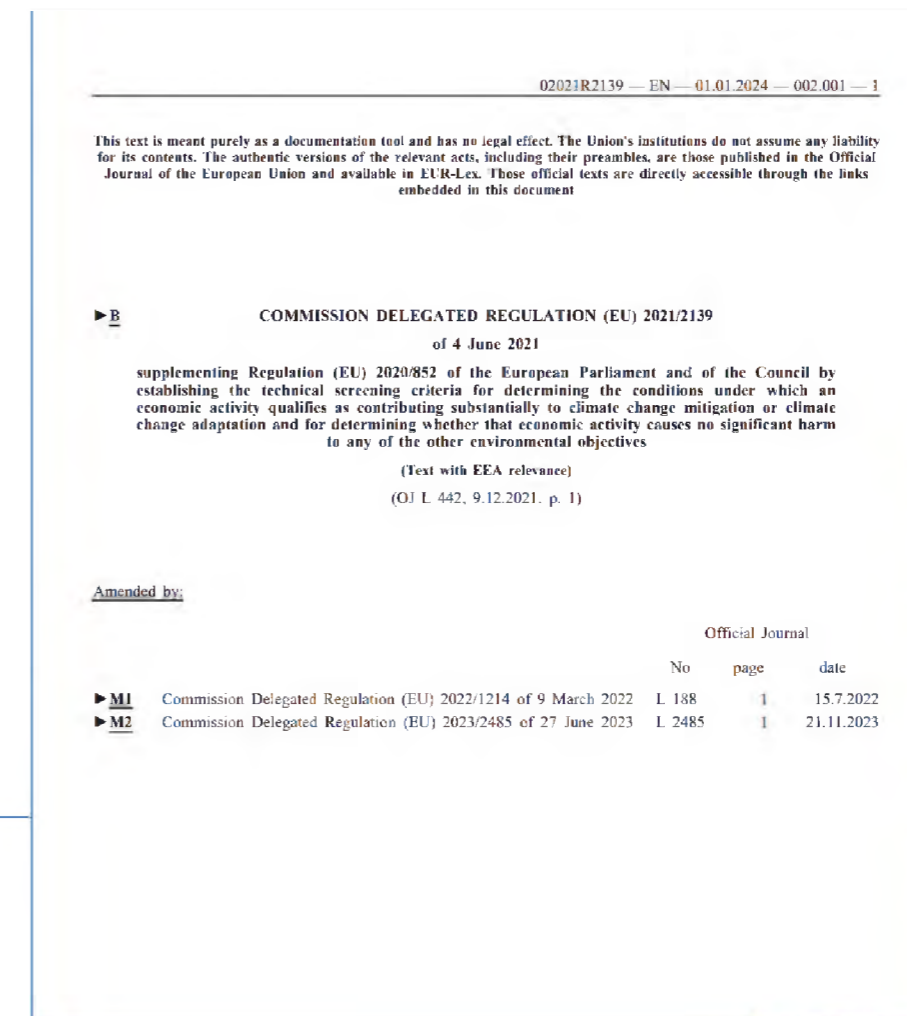
Dr. Bolu Wang, IPSF CGT China TEG Lead



Expansion of the scope of CGT

General objectives:

- **Extend the comparison exercise** to taxonomy frameworks developed by other IPSF members to identify the commonalities and differences in their respective approaches and outcomes
- **Adapt the CGT comparison methodology for more jurisdictions**, laying the foundation for increased cross-border cooperation in tackling climate change.
- **Contribute to the international efforts** of improving the global interoperability of sustainable finance frameworks.



Green Bond Endorsed Projects Catalogue (2021 Edition)

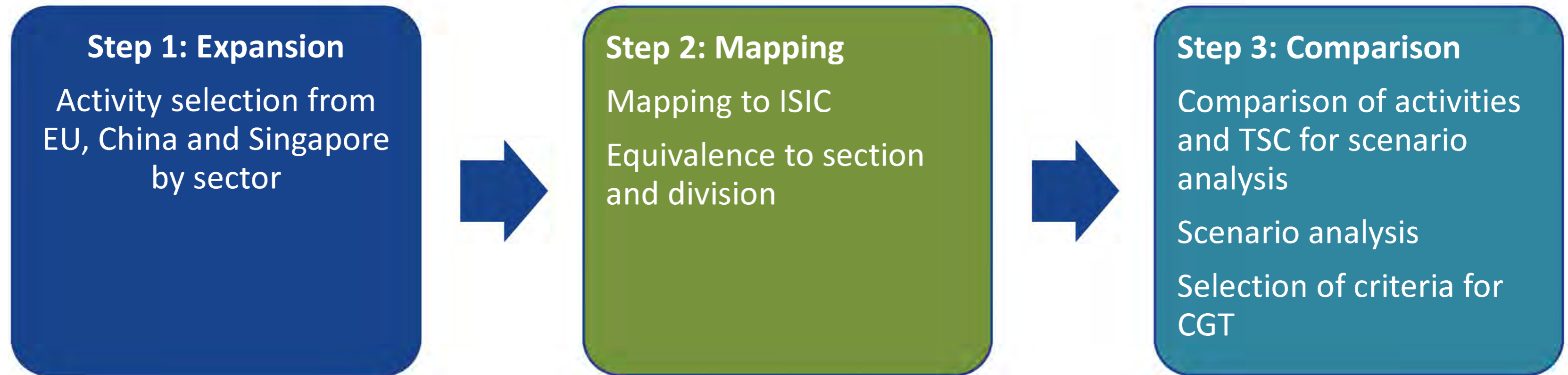
Note: The Green Bond Endorsed Projects Catalogue (2021 Edition) was jointly announced by the People's Bank of China (PBOC), the National Development and Reform Commission (NDRC) and the China Securities Regulatory Commission (CSRC) on 21 April 2021.

Expansion of the scope of CGT: principles

- **Principle 1:** Expand to cover new ISIC sectors covered by other jurisdiction taxonomy
- **Principle 2:** Accept accessible, adaptable and compatible technical criteria. For commonly adopted global activities, accept most stringent thresholds or best available practice
- **Principle 3:** Conduct topic criteria analysis for important and complex activities, such as those related to buildings, forestation, etc.

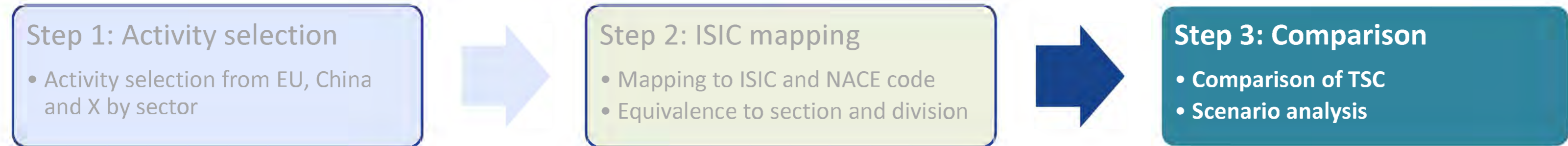


Methodology Description

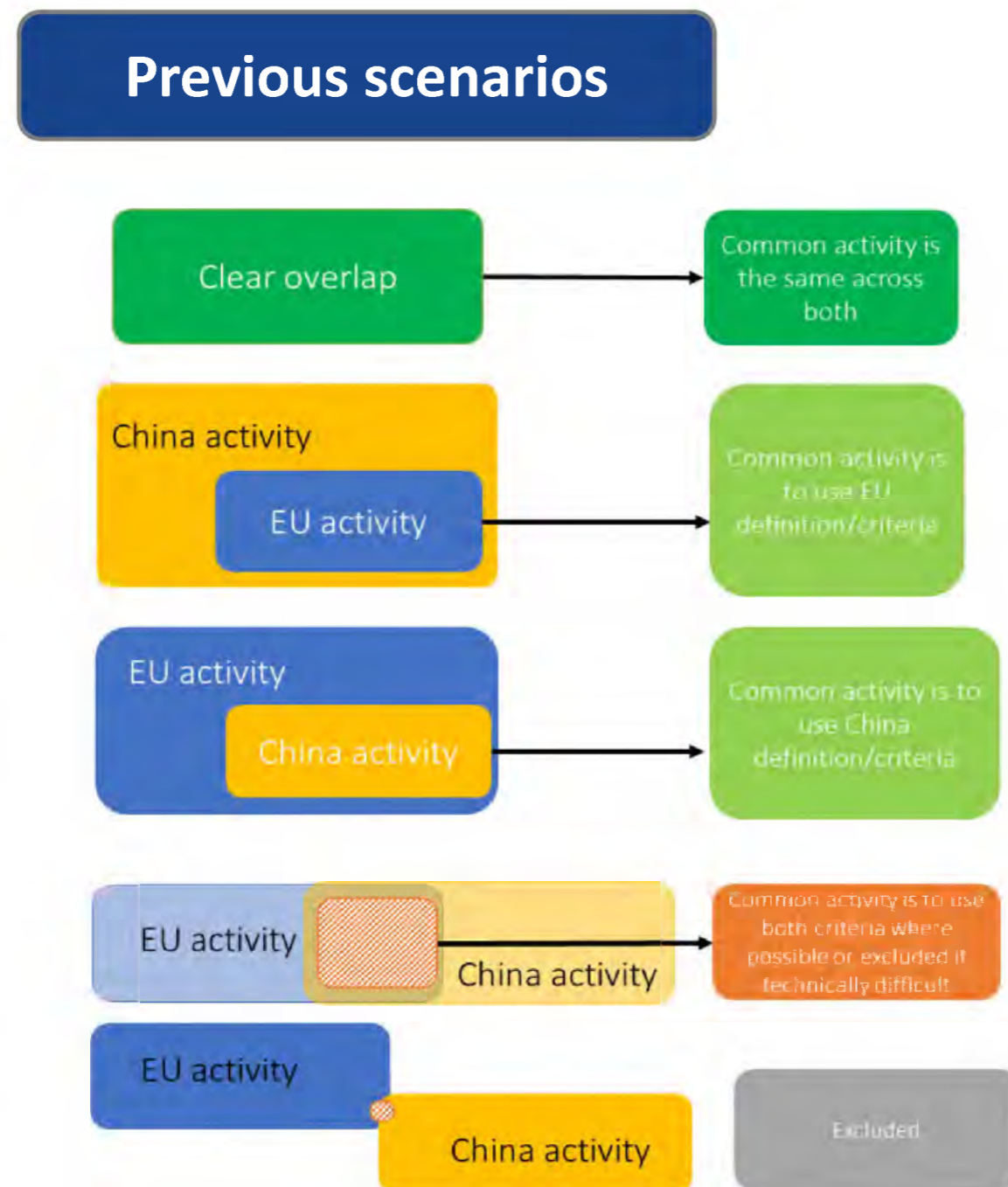


- If traffic light system is used for any taxonomy, **use only Green criteria for scenario analysis**
- To apply the methodology properly, **the activity must be included in at least two assessed taxonomies**

Methodology Description



Methodology Description



Proposed scenarios

Scenario 1:

Usable for n Taxonomies: Alignment across taxonomies

Scenario 2:

Maintain current approach of selecting the most ambitious threshold (1 is clearly more stringent)

Scenario 3:

N-number of taxonomies are equally stringent and exceed in ambition of others assessed [**modified based on trial**]

Scenario 4:

Unclear Winner: either exclude or develop qualitative principles that define common language [**new**]

Scenario 5:

Excluded: Either exclude or introduce region specific considerations [**new**]

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Existing use cases of CGT by IPSF jurisdictions

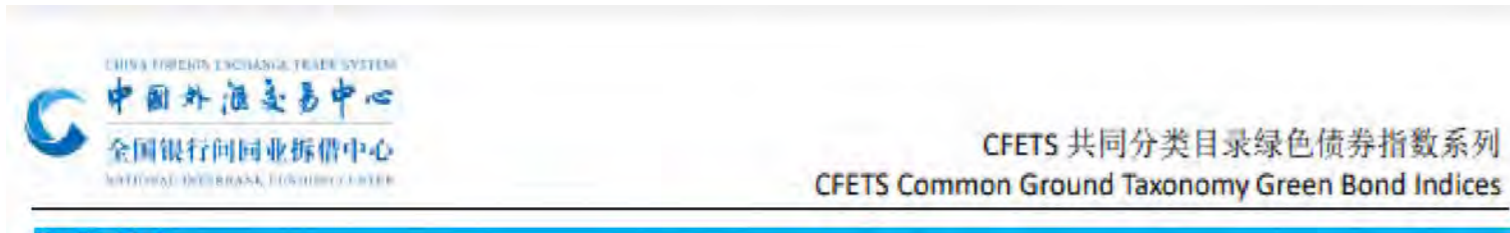
- **The operationalization |**

Dr. Bolu Wang, IPSF CGT China TEG Lead

Prateek Kumar, Ambire Global

Green assets that are labelled against CGT

Data available from LSEG Workspace, Bloomberg



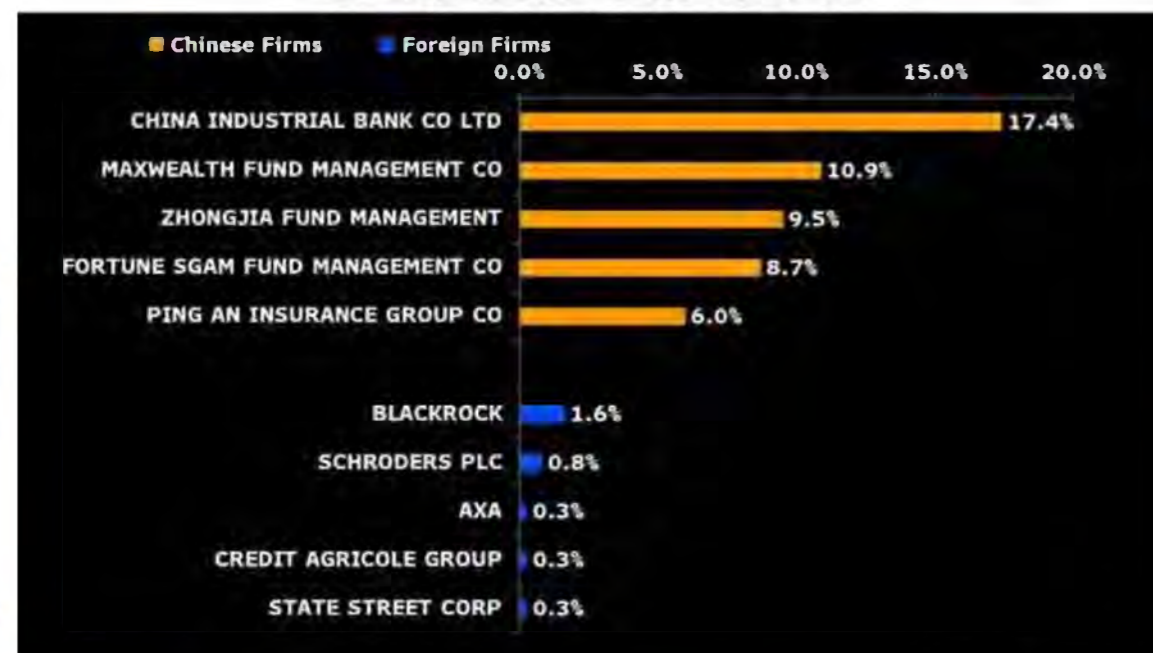
指数名称		
中文名称	英文名称	总收益指数代码
CFETS 共同分类目录绿色债券指数	CFETS Common Ground Taxonomy Green Bond Index	CFXID00881
CFETS 共同分类目录高等级绿色债券指数	CFETS Common Ground Taxonomy High Grade Green Bond Index	CFXID00891



Mercedes-Benz International Finance B.V. successfully issued its first Green Panda Bond on November 24, 2022 with a size of RMB 500 million (approx. EUR 68 million), a term of two years and a coupon rate of 2.9% in the Chinese Interbank Bond Market.



CGT贴标债券的前10大持有人



中国CGT贴标债券 vs. 中国绿债市场回报率

Common Ground Taxonomy-Aligned Bond Performance									
Change	Return	Custom Period							
		12/31/21	04/30/24						
Security	1d Ret	1w Ret	1m Ret	3m Ret	MTD Ret	QTD Ret	YTD Ret	Cust Ret	T
Investable Debt (215)	.02	.11	.39	1.11	.17	.67	1.78	5.81	
• Financial Institutions (2)	.03	.25	.33	.74	.38	.76	.74	.35	
• Agency (112)	.02	.12	.34	1.03	.19	.6	1.68	5.32	
• Industrial (12)	.02	.07	.38	1.08	.13	.58	1.89	5.48	
• Local Authority (77)	.03	.11	.47	1.26	.17	.79	1.97	6.53	
• Utility (12)	.02	.03	.35	1.02	.08	.58	1.61	6.88	

China Green & SLB Bond Performance									
Change	Return	Custom Period							
		12/31/21	04/30/24						
Security	1d Ret	1w Ret	1m Ret	3m Ret	MTD Ret	QTD Ret	YTD Ret	Cust Ret	T
Investable Debt (813)	.04	.12	.34	.97	.18	.54	1.72	4.6	
• Financial Institutions (153)	.06	.07	.18	.33	.11	.2	.97	3.19	
• Utility (32)	.04	.12	.38	.87	.15	.51	1.4	4.88	
• Industrial (60)	.07	.13	.43	1.04	.27	.48	1.61	4.52	
• Agency (282)	.02	.12	.3	1.15	.19	.62	2.08	4.58	
• Sovereign (10)	.06	.11	.18	.83	.15	.29	1.42	5.5	
• Local Authority (272)	.03	.14	.46	1.25	.19	.74	1.97	5.49	
• Supranational (4)	.14	.39	.37	-.33	.72	-.02	.59	5.61	

The Neuberger Berman China Green Bond Fund is an innovative investment product that leverages the Common Ground Taxonomy (CGT). With a fundraising size exceeding CNY 2 billion, the fund is committed to investing at least 80% of its assets in green-labeled bonds. Moreover, as an actively managed fund, it considers the CGT as a global standard for selecting and assessing green bonds.

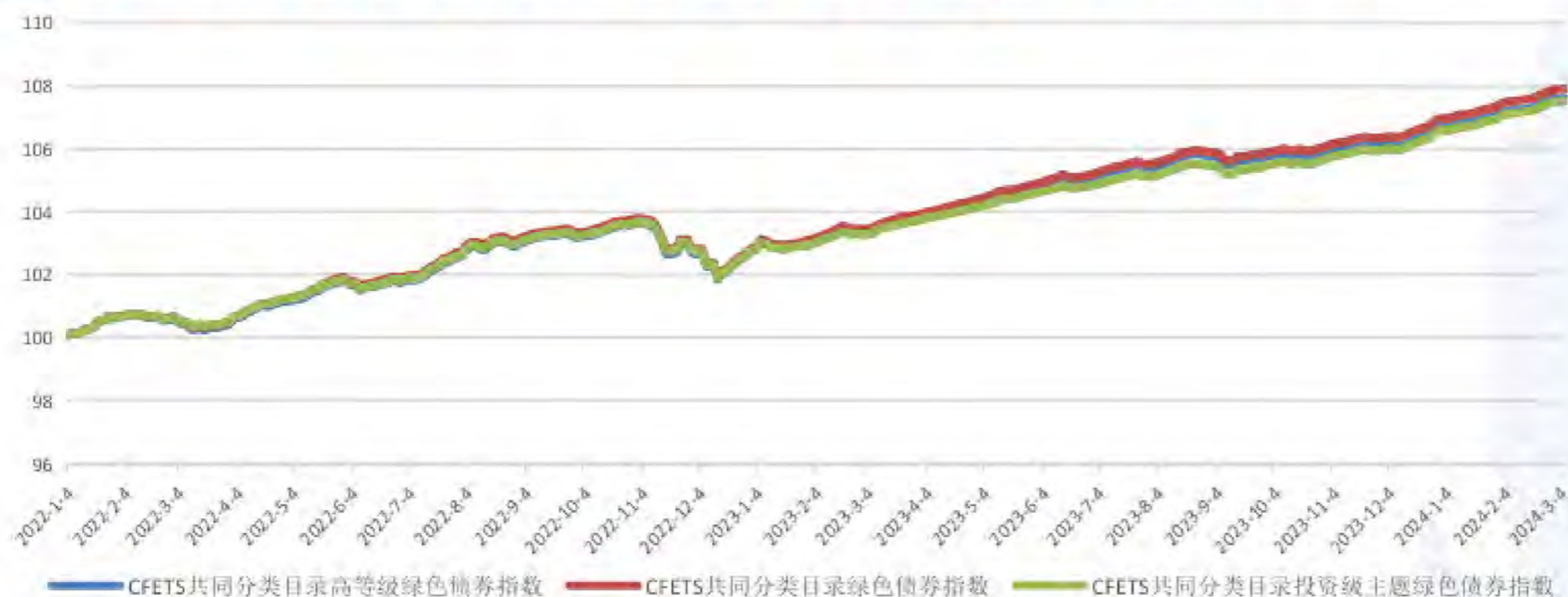
Reducing greenwashing risks of green bonds



- As of May 2024, 230 green bonds aligned with CGT (totaling 306.1 billion yuan) account for 23% of China's outstanding green bonds. Among them, 70 bonds were CGT-aligned at its issuance, accounting for 30.4% of the latest batch (+25pct).
- Primarily focused on renewable energy and clean transportation projects, including wind power, public transport, solar power and hydropower.

CGT green bond index basket

指数基期以来运行情况及样本特征 Index performance



CFETS共同分类目录高等级绿色债券指数 CGT High Grade Green Bond Index
 CFETS共同分类目录绿色债券指数 CGT Green Bond Index
 CFETS共同分类目录投资级主题绿色债券指数 CGT Investment Grade Theme Green Bond Index

2023年	年化回报率% Annualized return	年最大回撤% Max drawdown	波动率% Volatility	卡玛比率 Calmar Ratio
共同分类目录绿色债券指数 CGT Green Bond Index	4.05	-0.32	0.46	12.6
共同分类目录高等级绿色债券指数 High Grade	3.87	-0.35	0.47	11.2
共同分类目录投资级主题绿色债券指数 Investment Grade	3.76	-0.35	0.45	10.81

共同分类目录绿色债券指数 CGT Green Bond Index

发行人数量 # of issuers	84
样本券数量 # of bonds	205
指数久期 duration	1.5298
指数凸性 convexity	5.4877
指数基点价值 base value	0.0157
指数到期收益率(%) YTM	2.4003
指数市值(亿元) market value	2781

共同分类目录高等级绿色债券指数 For High Grade

发行人数量 # of issuers	59
样本券数量 # of bonds	160
指数久期 duration	1.5746
指数凸性 convexity	5.701
指数基点价值 base value	0.0162
指数到期收益率(%) YTM	2.365
指数市值(亿元) market value	2459

共同分类目录投资级主题绿色债券指数 For Investment Grade

发行人数量 # of issuers	35
样本券数量 # of bonds	93
指数久期 duration	1.5829
指数凸性 convexity	5.4249
指数基点价值 base value	0.0162
指数到期收益率(%) YTM	2.3638
指数市值(亿元) market value	1783

Inaugural use of CGT in Repo



- 国际上已有可持续资金使用回购 (Sustainable Use of Proceeds of Repo/Green Repo)，**资金用于向可持续项目融资。**
- 东方汇理银行、汇丰银行、德意志银行等机构 (Crédit Agricole Corporate and Investment Bank, HSBC, Deutsche Bank)



- 借助回购业务灵活便捷的交易方式，发挥货币市场资金价格优势，有利于降低绿色融资成本。Reduce the cost of green financing with Repo
- 融入资金全部用于支持金融机构绿色业务，是货币市场支持实体经济的体现。Proceeds used to support green business. Money market supports real economy.



- 国开行和交通银行达成首笔支持绿色业务质押式回购，工商银行和浦发银行达成首笔支持绿色业务买断式回购。CDB and Bank of Communications completed the first trade of pledged repo collateralized by green bonds. ICBC and SPDB completed the first trade of outright repo to support green business.
- 经认证，所支持绿色项目是符合《21版绿债目录》及《共同分类目录》。Projects are recognized as CGT compliant.

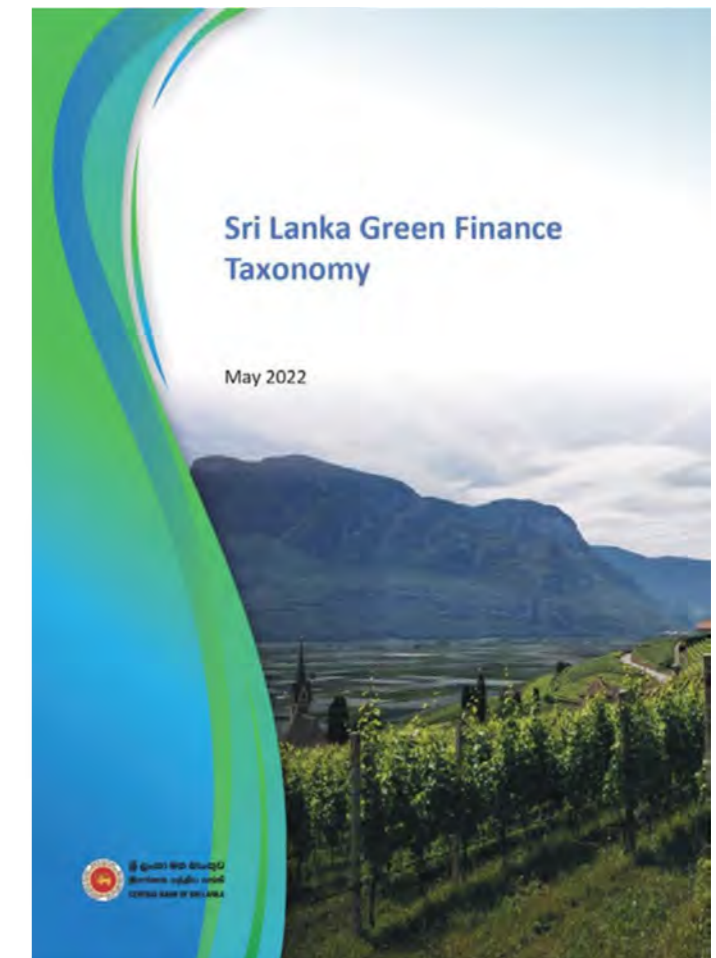
Green funds linked to CGT green bond indices

CGT绿债发布后外资公募首只主动管理绿债基金

Overseas mutual fund released the first actively managed ESG-themed bond fund

- 2023年9月，路博迈发行首只ESG主题的债券基金，募集金额总额超20亿元，是迄今为止国内最大规模的主动管理型绿色债券主题公募基金。该基金投资标的明确优先配置符合CBI（气候债券倡议组织）和CGT（共同分类目录）标准的绿色债券。
- Neuberger Berman issued the first ESG-themed bond fund with a total amount of over 2 billion yuan in Sept. 2023, which is the largest actively managed green bond mutual fund in China. The fund's investment target prioritizes the allocation of green bonds that meet CBI and CGT standards.
- 此外，已有多家境内外资产管理机构与交易中心沟通基于CGT绿债清单和指数产品发行基于投资CGT绿债的资管产品。
- A number of asset management institutions have contacted CFETS and shared their plans on the launch of CGT green bond funds.

Approach for Sri Lanka GFT: Built on international Basis



Assess existing taxonomies to understand applicability for Sri Lanka.
The CGT, EU and China Taxonomies used as a starting point

Sri Lanka to adopt 'Low Hanging fruit' within other taxonomies (e.g. EU-China developed IPSF Common Ground Taxonomy)

Account for local laws and circumstances. This could include the adoption of local standards

Take leadership on developing criteria for sectors for activities where there lacks existing eligibility criteria

International Taxonomies Referenced:

- ❖ Country/Regional Taxonomies: EU, China, South Africa, Colombia
- ❖ IPSF Common Ground Taxonomy Instruction Report, International Platform for Sustainable Finance, 4 November 2021
- ❖ Climate Bonds Taxonomy
- ❖ IFC Climate Smart Agriculture Financing for Sri Lanka, IFC Blue Finance Guidelines

Sectoral coverage – Hong Kong

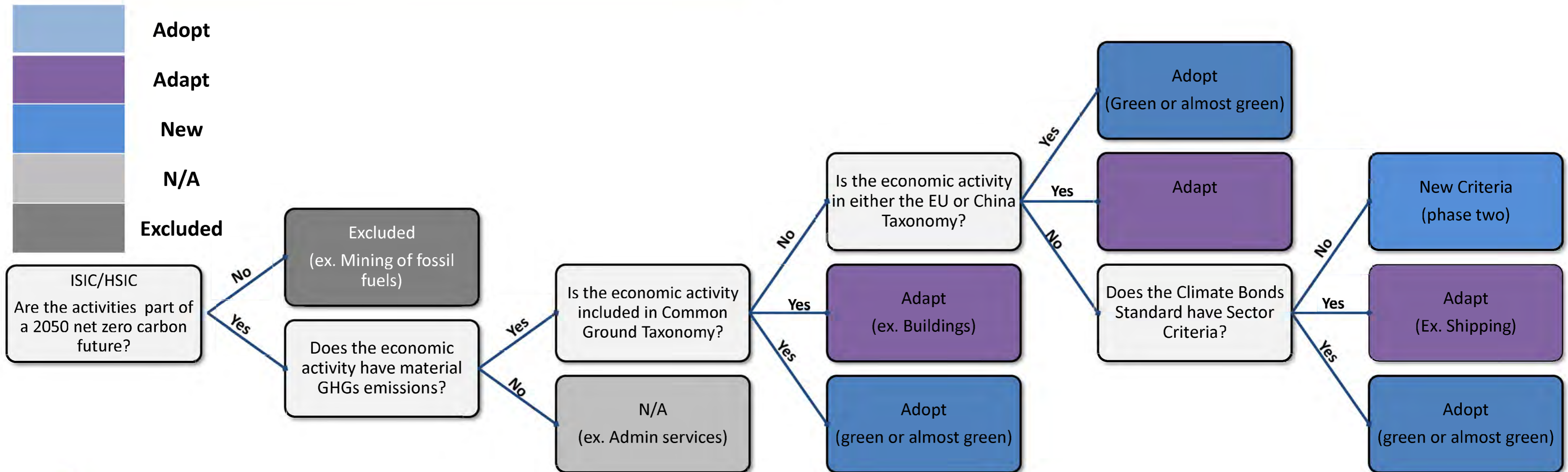
Property development: construction

Energy generation: electricity, gas, steam and air conditioning supply

Transportation: transportation and storage

Water and waste management: water supply, sewerage, waste management and remediation activities

Methodology Description – Hong Kong



N.B. - The process is iterative and sometimes non-linear



Existing use cases of CGT by other jurisdictions

- **The operationalization |**

Alison O' Riordan, European Commission



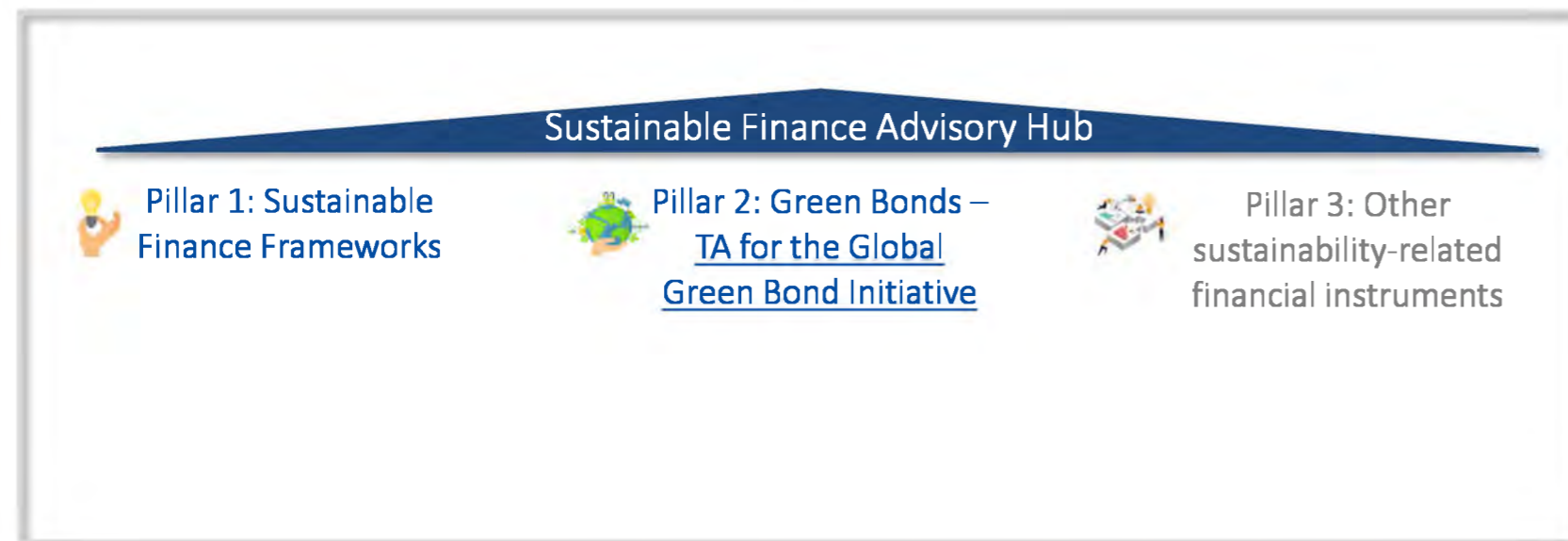
The Sustainable Finance Advisory Hub for low- and middle-income countries



Outside of the IPSF, which is an international forum, the EU is preparing a team Europe flagship initiative to provide technical assistance to low- and middle-income countries to help them build their sustainable finance frameworks through the Sustainable Finance Advisory Hub.

Team Europe's response

The Sustainable Finance Advisory Hub



- A coherent and high-quality centralised Hub providing technical assistance on sustainable finance frameworks and sustainability-related instruments to partner countries.
- Implementing partners include United Nations Development Programme (UNDP), Deutsche Gesellschaft für Internationale Zusammenarbeit (GIZ), European Investment Bank (EIB), European Bank for Reconstruction and Development (EBRD), African Development Bank (AfDB), Global Green Growth Institute (GGGI), Inter American Development Bank (IDB), among others.

The Sustainable Finance Advisory Hub for low- and middle-income countries

The European Commission is collaborating with several low- and middle-income countries by assessing similarities and differences between their respective taxonomies and the EU. This work is at the heart of the mission of the EU Sustainable Finance Advisory Hub for low- and middle-income countries. The comparison between EU and local taxonomies in LMICs is an important step towards increased interoperability with low- and middle-income countries.



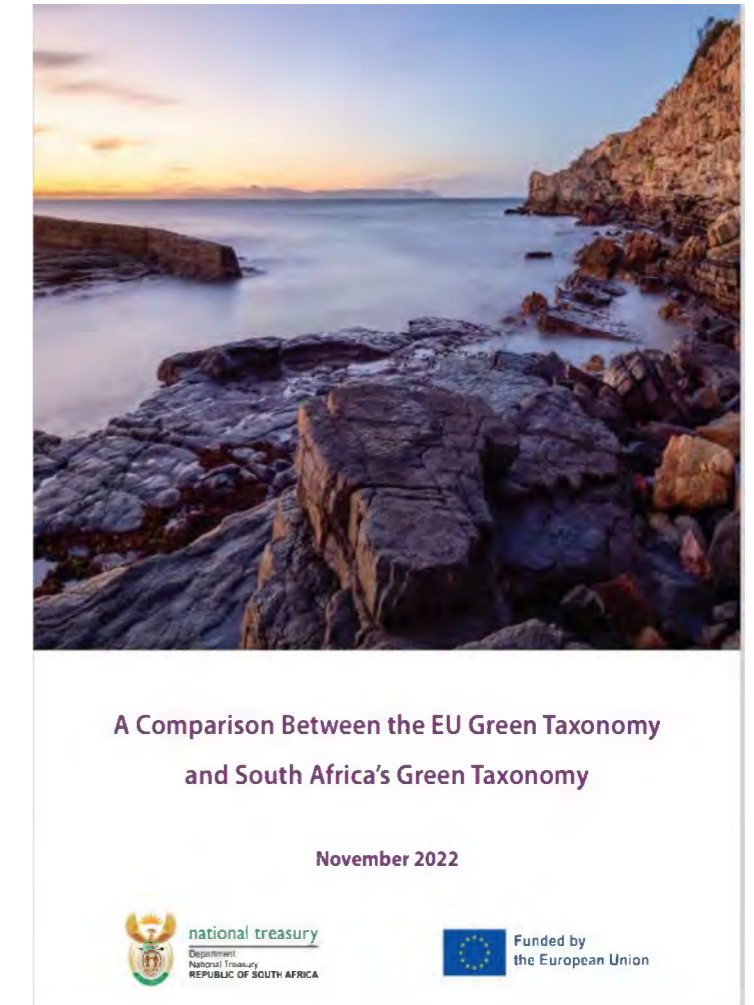
Sustainable Finance
Advisory Hub



Pillar 1: Sustainable Finance Frameworks

Non-exhaustive list of activities:

- ✓ Roadmap/strategy-related
- ✓ Taxonomy-related (incl. interoperability studies) and **comparisons of taxonomies** (inspired by CGT methodology)
- ✓ Sustainability/climate disclosure-related
- ✓ Sustainability/climate risk-related
- ✓ Climate/sustainable loan framework-related
- ✓ Transition finance-related



Q & A



Satisfaction Survey



<https://forms.office.com/e/SehBxbVJ4x?origin=IprLink>



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International Platform on Sustainable Finance

Common Ground Taxonomy

Overview and its evolution - Knowledge sharing session

This activity is part of the EU Climate Dialogues (EUCDs) project

Climate Bonds INITIATIVE

Capacity Building
Alliance of Sustainable Investment CASI

ambire
GLOBAL