

## *SBFN Sustainable Finance Instruments Working Group*

February 2022

# **DRAFT FRAMEWORK FOR MAPPING AND BENCHMARKING SUSTAINABLE FINANCE TAXONOMIES**

**From mapping to benchmarking.** As best practices in creating country-level taxonomies are not yet fully established, the benchmarking exercise for the SBFN Sustainable Finance Instruments Working Group will start with an initial mapping to understand the range of practices and determine, through consultation with the *SBFN Working Group*, what is considered best practice in taxonomy development for emerging markets.

**Learning from mapping.** The initial mapping exercise will be based on the **proposed initial mapping framework** below. However, analysis of best practices across taxonomies will likely suggest other categories of analysis that should be included in the benchmarking.

**Creating models and roadmaps.** The initial mapping of taxonomies will help create a model or models for taxonomy development, with different alternatives that countries can choose from based on their specific situations. These models will provide a basis for roadmaps, toolkits, and other tools to help countries develop or refine their country-level taxonomies and support implementation.

**Focus of initial mapping.** The benchmarking will primarily focus on country-level taxonomies that have been developed or are being developed by SBFN members. It will also include a few international, regional, and country taxonomies outside SBFN countries, such as those by the International Capital Market Association (ICMA), Climate Bonds Initiative (CBI), European Union, Association of Southeast Asian Nations (ASEAN), Japan, and Canada.

### Full Scope Taxonomies - Completed

- ASEAN
- Bangladesh
- Brazil
- China
- European Union
- Indonesia
- Malaysia
- Mongolia
- Russia
- South Korea

### Full Scope Taxonomies - Developing

- Chile
- Colombia
- Mexico
- South Africa
- Vietnam
- Canada (focus on transition)
- Japan (focus on transition)

### Part of GSS Bond Standards

- Georgia
- India
- Kenya
- Morocco
- Peru
- Climate Bonds Initiative
- ICMA GSS Bond Principles

## INITIAL MAPPING FRAMEWORK

### SCOPE OF TAXONOMIES

#### Type of Taxonomy

<b>Hierarchy in sustainable finance framework</b>	<p><b>Overarching</b> with multiple applications (financial products, disclosure, prudential, etc.)</p> <p><b>Product-specific standalone</b> with more limited applications to financial products, or</p> <p><b>Component</b> of a sustainable finance product standard or disclosure regulation</p>
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#### Type of Activities or Assets

<b>Sustainable activities or assets</b>	Does the taxonomy define assets or activities based on sustainability impact (e.g., energy efficiency, pollution prevention)?
<b>Economic sectors with high sustainability Impact</b>	Does the taxonomy define assets and activities based on economic sector with the highest sustainability impact (e.g., agriculture)? How much of the targeted sustainability impact is covered? (e.g., % of GHG emissions covered by taxonomy)
<b>Performance thresholds for activities or assets</b>	Are performance thresholds required for included assets or activities? Are they intra-objective (threshold for performance) or inter-objective (e.g., social criteria for environmental activities)

#### Scope of Sustainability Topics

##### Environmental impact

Green assets and activities	Does the taxonomy define green assets and activities? <i>If yes, what environmental aspects are included? (Climate, biodiversity, water and oceans, pollution)</i>
Assets and activities enabling green objectives	Does the taxonomy define assets and activities enabling green objectives?
Low-carbon Transition activities	Does the taxonomy define assets or activities for a low-carbon / climate transition? <i>If yes, how are they defined as achieving transition objectives (e.g., principles, pathways, time-bound, and/or performance threshold)?</i>

##### Social impact

Social requirements for green	Are there social requirements for green assets or activities (e.g., EU minimum safeguards)?
Standalone social taxonomy	Does the taxonomy include a standalone social pillar? <i>If yes, what social aspects are included? (Gender, diversity, labor conditions, social impacts)?</i>
Just transition	Does the taxonomy define activities that support a Just Transition?



### Sustainability

Mechanisms to ensure holistic impact	Is there a mechanism to ensure that economic activities / entities respect all dimensions of sustainability (e.g., EU DNSH and social safeguards; alignment with SDGs)?
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### Harmful activities

Unsustainable or harmful activities	Does the taxonomy define assets or activities discouraged from investment due to being unsustainable for harmful? <i>If yes, how are these activities defined? What is the expected use of a taxonomy of harmful activities (e.g., understanding risk exposure; excluding harmful activities)?</i>
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## GOVERNANCE OF TAXONOMIES

### Normative Framework

Normative source / Strategic driver	What is the normative source or strategic driver of the taxonomy (e.g., National development priorities; Paris Agreement; SDGs)?
Consistency with global and regional taxonomies	How is the Taxonomy aligned with global and regional taxonomies?

### Governance of Taxonomy

Entity in charge of taxonomy	Which organization(s) or multistakeholder structure oversee the creation, implementation, and revision of the taxonomy?
Process for creation and revision	Is there a transparent process to create and revise the taxonomy? Is the taxonomy subject to peer reviews and stakeholder consultation? At what stage is the taxonomy in terms of creation, implementation or revision? Are there pre-determined regular intervals for revision?
Evolution and innovation	How does the taxonomy integrate flexibility to encompass innovation and evolution of the “right” solutions and assets (e.g., evolution of scientific understanding)? Is there a principle-based approach or a rule-based approach to evolving the taxonomy? Is there a process to ensure that the taxonomy is responsive to national priorities and practices?
Effectiveness and risk assessments	Are there mechanisms to ensure effectiveness of the taxonomy – i.e., that it produces the impact sought? Is there a process to ensure that there are no unintended consequences (e.g., diverting capital from other important societal activities)?
Interoperability	Have efforts been made to align with other regional or international taxonomies to facilitate use by international investors?

## Enforcement and Incentives

### Disclosure & Transparency

Coherence with disclosure frameworks	<p>Are local entities requested to report on taxonomy alignment? (e.g., public sector agencies, listed companies, investors, local financial institutions, unlisted companies)</p> <p>Where are the reporting / disclosure expectations published? (e.g., capital market / stock exchange listing and/or public disclosure requirements; corporate governance codes; regulator reporting requirements for supervision purposes; reporting obligations as part of green, social or sustainability bond frameworks)</p> <p>Is independent verification required for disclosure on taxonomy alignment? Are there synergies between taxonomy and corporate disclosure to prevent “undue burden”? Is there a system of subsidiarity between the two?</p>
Link to data framework	Are there efforts to create a common database of disclosures on taxonomy alignment that can be used by multiple stakeholders?

### Financial Products

Link to financial instrument design/types	Is there a link between the taxonomy and frameworks, standards, or labels for sustainable finance products (e.g., Green, Social or Sustainability Bonds; sustainability-linked bonds)?
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### Enforcement and incentives

Legal framework	<p>Is there a mechanism to monitor the proper use of the taxonomy (e.g., adequacy of taxonomy disclosure?)</p> <p>What is the link with the national legal and regulatory framework?</p> <p>What is the role of independent verification and/or second-party opinion?</p>
Incentives	Are there incentives for use of / or compliance with the taxonomy, for companies, financial institutions, investors?
Link to public finance	Is there a link to public spending?

## USE CASES OF TAXONOMIES

### Sustainable finance

Types of products	Does the Taxonomy support use-of-proceeds and sustainability-linked products?
Type of issuers	Does it support financing for projects, assets by companies, banks, and governments?

### Sustainable investment

Banking	Does the Taxonomy support banks’ portfolio classification, assessment and reporting?
Investors (asset managers & asset owners)	Does it support investment portfolio classification, assessment, and reporting?



### Accountability and transparency

Disclosure on conformance to the taxonomy	Does the Taxonomy support institutional accountability for taxonomy compliance? (e.g., company, financial institution, investor, public entity)
Accountability of entity managing projects and assets	Does the Taxonomy support issuer accountability for alignment of projects and assets?

### Macroeconomic assessment

Sustainability impact on financial stability	Does the Taxonomy support a prudential assessment of financial stability from “unsustainable” activities?
Investment Roadmap and Priorities	Does the Taxonomy provide a clear roadmap for sustainable investments to all market actors, including regulators?