

Taxonomies in China and the Common Ground Taxonomy

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Basic concept: why taxonomy?

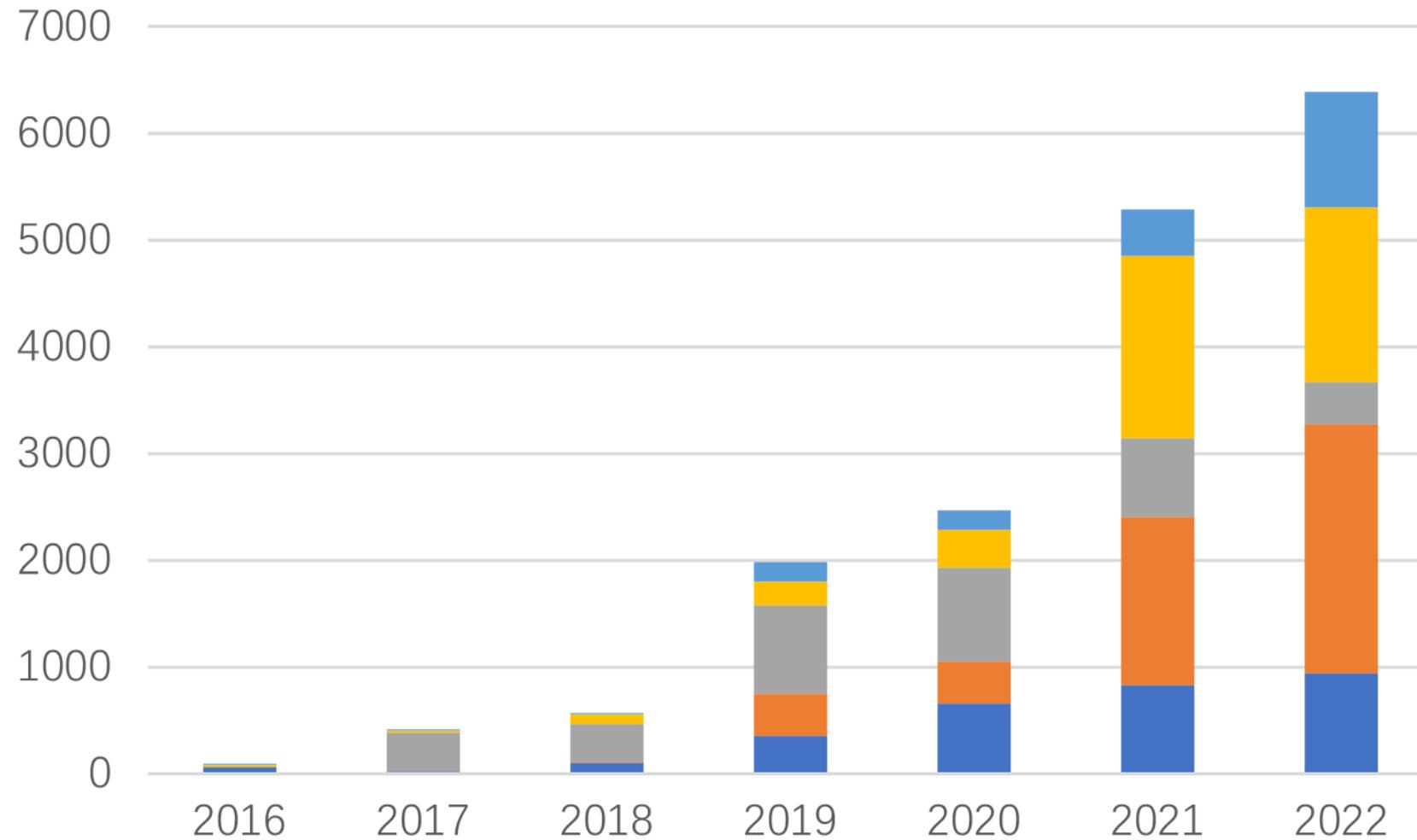
Based on China's experience of taxonomy development (three sets of taxonomy since 2013), it is clear that taxonomy provides a foundation for the entire green financial system. As it:

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

China has three green finance taxonomies

1. Green bond taxonomy: Catalogue of Eligible Projects Supported by Green Bonds, first introduced in 2015 and updated in 2021
2. Green loans taxonomy: PBOC and CBIRC, with slight differences, such as nuclear and railways, updated in 2019 and 2020 respectively
3. Catalogue of green industries: introduced mainly by the NDRC in 2019
4. PBOC is also working on the development of transition finance taxonomy

China's green bond market growing fast



In 100million yuan, 1 USD=7.16 yuan as of Nov 25, 2022



A Global Challenge: Proliferation of Taxonomies

- A large number of green/sustainable finance taxonomies have been (and are being) developed by **more than 20 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: 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/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;
- The CGT, including **72 mitigation activities** that share common ground for both the EU and China taxonomies, was released in June 2022;
- The common ground taxonomy could be used by issuers/investors/jurisdictions/other stakeholders in various ways on a voluntary basis.

Use of Common Ground Taxonomy

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 and labelling green financial products

- CGT can be used by interested parties, including market participants, on a voluntary basis, for developing and labelling green financial products. For example, Chinese issuers 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. In May 2022, the Industrial Bank issued its first CGT labelled green bond.

Use of Common Ground Taxonomy (cont.)

Reference for developing taxonomies

- CGT can be used by other jurisdictions which intend to develop their own taxonomies as a reference. In May 2022, Sri Lanka's Central Bank launched Green Finance Taxonomy, with the *IPSF Common Ground Taxonomy* as one of its benchmarks.

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.

Thanks!