

International Platform on Sustainable Finance



ANNUAL REPORT

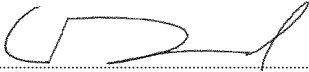
October 2020

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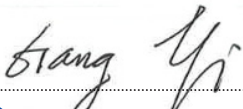
**High level steering
committee representatives**



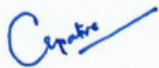
Mr Valdis Dombrovskis
Executive Vice-President of
the European Commission



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Minister and Minister of
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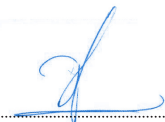
Mr Yi Gang,
Governor of the People's
Bank of China



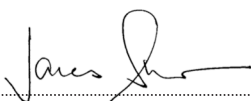
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Statement

Climate change is the defining challenge of our times. It is a symptom of a planet, which is warming at an unprecedented rate. The loss of biodiversity and consequent destruction of ecosystems is already a reality. Our global environment is at a tipping point and the time for action is now.

All levers of human ingenuity must be harnessed, as governments, businesses and citizens work in tandem to help secure the transition to a low-carbon, environmentally sustainable future.

As climate change is a global challenge, international cooperation is more necessary than ever. The scale of the challenge requires a unity of purpose among all nations. The Covid-19 pandemic reminds us of these interdependencies and of our fragile relationship with nature. Indeed, recovery from the Covid-19 pandemic should focus minds and reinforce our joint commitment to a global green transition.

Private finance has a vital role to play in funding this global green transition. In channelling savings to investments, financial markets can set appropriate incentives and price risk efficiently. We need financial markets to incorporate the needs of our planet when setting those incentives and pricing risk. We believe that financial institutions, which are placing sustainability at the centre of their decision-making and promoting innovation to solve environmental challenges, will contribute to the global common good while increasing their competitiveness. There cannot be a better return on investment than delivering a sustainable future.

The International Platform on Sustainable Finance is at the heart of this global response. Since its launch last year, membership of the Platform has grown to jurisdictions. Collectively, we represent around half of the world's economy, population and CO2 emissions. As an open forum of exchange, the Platform works alongside other international fora to help its members to mobilise private finance in the effort to save the planet and deliver sustainable economic development for the future.

We will continue to explore common tools to help private finance play its part in securing a greener global future. Integrated markets for funding sustainable investment



Mr Jan Tore Sanner
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will be instrumental in mobilising capital at the scale and speed required to meet our Paris Agreement objectives and the Sustainable Development Goals.

The work of the Platform will be fundamental in preparing the ground for International Standard Setters in developing globally applicable sustainable finance standards. Corporate disclosures of environmental risks, green standards and labels and taxonomies of sustainable investments have already been identified as areas for work within the Platform. That work, which is already underway, will seek to identify best practices and explore common ground in our approaches.

The challenge of global climate change is both immense and immediate. Investment needs in transitioning to sustainable economic development are enormous. We have no time to lose. Our ambition and our commitment are unwavering.



The IPSF is open to public authorities, which are taking action and willing to promote international cooperation in the area of environmentally sustainable finance. Join us by sending your application to the IPSF secretariat (fisma.ipsf@ec.europa.eu).

Together, we can make a difference!

This is a joint statement by the high level steering committee representatives of the IPSF member jurisdictions, and is separate from the Annual Report hereafter. For certainty, this joint statement is not an endorsement of the Annual Report.

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Disclaimer on input for and status of the report

This report is coordinated by the IPSF Secretariat (European Commission), with substantial contributions received from IPSF members. It reflects the state of the play of the discussions under the IPSF but not the individual position of IPSF members. The report reflects the collective work of the IPSF members and observers over the year 2020. The results of this report are based on self-reporting by IPSF jurisdictions. The accuracy of the reporting remains the responsibility of the member jurisdictions.

Chapter 2 is based on input by the Climate Bonds Initiative and contributions from IPSF members.

Chapter 3 is based on input received to a survey questionnaire circulated to IPSF members, complemented by other information shared by IPSF members and observers. The status of implementation of sustainable finance measures is recorded without prejudice to further steps being taken in a given policy area.



Executive Summary

“ As for the future, your task is not to foresee it, but to enable it “
Antoine de Saint Exupéry, Citadelle, 1948

This 2020 Annual Report of the International Platform on Sustainable Finance (IPSF) outlines the crucial role of sustainable finance in the context of the impact of the COVID-19 pandemic. The findings come at an important juncture for policymakers, as authorities continue to address the impact of the COVID-19 pandemic and begin to work towards a global economic recovery based on environmentally sustainable, balanced and inclusive growth. Since its launch, the IPSF has grown significantly, reaching 14 member jurisdictions, representing around 50% of global greenhouse gas emissions, 50% of world population and almost 50% of global GDP.

This report provides an overview of the work done over the previous year. It provides a first analysis of the sustainable finance landscape in global markets, as well as policy trends within and beyond the IPSF membership. It also provides an overview of the main characteristics of sustainable finance tools in three key areas of focus of the IPSF (taxonomies, standards and labels and disclosure), and underlines the main commonalities and divergences in IPSF jurisdictions.

Working towards convergence on these three areas is essential to scale up sustainable finance globally as it will enhance global market transparency and help international investors identify investment opportunities that contribute truly to environmental objectives across the globe.

The report suggests a number of initial findings: (i) COVID-19 has underlined the critical need for coordinated actions to finance a more sustainable economy. Sustainable finance has a major role to play in ‘building back better’ and contributing to a sustainable and resilient recovery. (ii) Markets for products that pursue sustainability objectives have grown massively in volume and diversity during the last years, but their growth is far from enough to achieve our targets. IPSF member countries have taken on a leading role in the field, in particular through the high volumes of green bond issuance. Despite rapid growth, however, green bond issuances must continue to scale up to reach the volume required to achieve climate and environmental goals. (iii) The development of green taxonomies within the IPSF membership is nascent, but uptake potential is promising. Many IPSF jurisdictions are considering developing a taxonomy and the potential for comparability in this area is significant. The IPSF has initiated a working group on taxonomies that will work toward a “Common Ground Taxonomy” highlighting the commonalities between existing taxonomies. This Common Ground Taxonomy will enhance transparency about what is commonly green in member jurisdictions and contribute to scale up cross-border green investments significantly. (iv) More and more jurisdictions are developing standards and labels for sustainable financial products, with regulations and guidelines, to provide transparency and clarity and address the risk of greenwashing. The IPSF will keep monitoring market developments regarding standards and labels and could envisage the creation of a dedicated working group in the near future. (v) In recent years, environmental-related disclosure has improved considerably and a majority of IPSF members have already set mandatory regulatory requirements. Nonetheless, there are still significant gaps notably in the quality and comparability of information disclosed to meet the needs of investors. In this light, most IPSF members with regulatory regimes are revising them while those with voluntary-based approaches are considering a shift to hard law. To ensure that these developments are coordinated and coherent, the IPSF is about to launch a working group on corporate environmental-related disclosure.

The analysis of this report constitutes the basis for further in-depth work, which will also build on further progress as IPSF member jurisdictions continue to develop regulatory frameworks to enable the transition to a sustainable future. For more information about sustainable finance developments within the IPSF membership, see country specific fiches available [here](#).¹

¹https://ec.europa.eu/info/business-economy-euro/banking-and-finance/sustainable-finance/international-platform-sustainable-finance_fr

1. The International Platform on Sustainable Finance: Towards a reinforced cooperation on sustainable finance, more needed than ever to ensure a global green recovery

a. The economic challenge to reach our sustainability goals requires the full mobilisation of the financial sector

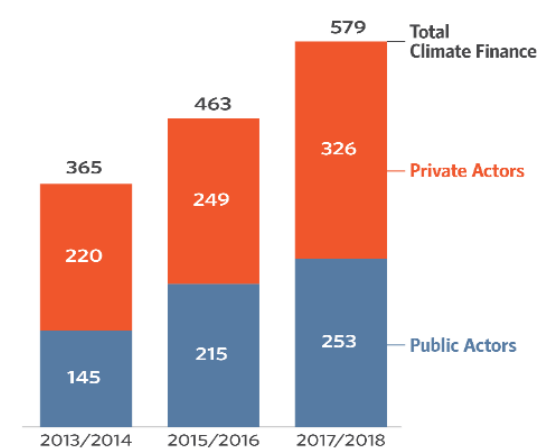
Climate change is already a sizable and visible reality. With rising sea levels, drinking water shortages and chronic severe drought, more intense and frequent heatwaves, wildfires, hurricanes and storms, climate change has impacted all the regions around the world and will continue to do so in the future. In parallel, the loss of biodiversity and depletion of natural resources are accelerating. We are collectively approaching a tipping point where all our ecosystems – and the services they provide to human activity – might experience severe and potentially irreversible changes. These, in return, will have a knock-on effect on people’s health, food security, economic stability or population displacement, and poses a threat to the well-being of future generations. Climate change, biodiversity loss and environmental degradation are interconnected and collectively represent among the biggest risks to the world economy of our time - the consequences of which can negatively affect socio-economic development, growth and inequalities. These challenges disproportionately affect the poorest people and regions in the world, creating new sources of vulnerabilities for countries with little fiscal space.

Coordinated and global climate and environment action is required now and on a much greater scale than in the past. The IPCC Special report on 1.5 °C of 2019 has shown that current government pledges will only limit global warming to about 3°C above pre-industrial levels by 2100. This trajectory will have dangerous and irreversible consequences on the environment and life on Earth, which can only be contained if the Paris Agreement goal of limiting the temperature increase to 1.5°C is achieved. The IPCC report therefore called for higher government ambition and an unprecedented transition in all aspects of society to reduce global net anthropogenic CO2 emissions by about 45% from 2010 levels until 2030 and to reach net zero in around 2050.² Recent assessments by the Intergovernmental Science-Policy Platform on Biodiversity and Ecosystem Services (IPBES) concluded that species extinction rates are tens to hundreds of times higher now than historical averages. 75% of the Earth’s land surface has been significantly altered by human actions, including for example the loss of 85% of the area of wetlands. 66% of the ocean area is experiencing multiple impacts from people, including from fisheries, pollution, and chemical changes from acidification.

Capital markets have a key role to play given the massive investments needed to reach these goals.

The Paris Agreement asks Parties to make “financial flows consistent with a pathway towards low greenhouse gas emissions” making climate finance one of its core objectives. In 2018, climate finance reached, for the first time, a total volume of half a trillion dollars, with 56,3% coming from

Global climate finance flows by public and private actors, 2013-2018
(two-year average, USD billion)



Source: Climate Policy Initiative

² IPCC, [Summary for Policymakers of IPCC Special Report on Global Warming of 1.5°C](#), 2018.

private sources.³ Although this shows that climate finance has constantly progressed over the years, its scale is still insufficient to reach the goals of the Paris Agreement, which according to OECD estimates, will require annual infrastructure investments of USD 6.9tn globally.⁴

Bridging this finance gap, domestically as well as internationally, is beyond the capacity of the public sector alone. While public funding will continue to play a critical role, a rapid, large-scale transformation towards a sustainable future can only happen with the full support of private capital.

Global financial markets have the potential to bridge this gap by linking green investment demand to global sources of funding, in particular for developing countries. However, scaling up sustainable finance worldwide is a challenging task, notably due to the absence of coherent definitions of green investments (taxonomies) and the low degree of standardization and transparency. In low-income countries, scaling up green investment is further challenged notably limited fiscal space, low attractiveness for international private funds, and limited functioning of the financial markets.

Markets therefore need guidance from public authorities to help them steer capital flows into an environmentally sustainable direction. Several jurisdictions around the world have thus started to draw up roadmaps and initiatives to build sustainable finance capacities, integrating for instance recommendation by the G20 Sustainable Finance Study Group⁵. By introducing regulatory frameworks focused on sustainable finance, countries aim to enhance standardisation in this diverse area. For example, China has led the way in developing, aligning and applying green taxonomies for different financial products. Similarly, the EU is finalising the first stage of its taxonomy framework, while an industry-led transition finance taxonomy is in development in Canada. Furthermore, most IPSF members have in place guidelines or regulations to define standards and labels for sustainable finance products. Other types of regulatory frameworks on environmental disclosures are also increasingly being rolled out across all major financial centres, including Singapore. These measures are examined in more detail in section 2 of this report.

Markets have generally welcomed these steps and have begun to change their practices. However, when designing their sustainable finance tools, authorities have understandably reflected their local needs, their environmental priorities and stages of market development. The risk that fragmented practices lead to insufficient financing for the transition globally is real.

³ Buchner, B. et al. «[Global Landscape of Climate Finance 2019](#)», *Climate Policy Initiative*, 2019.

⁴ OECD/The World Bank/UN Environment, [Financing Climate Futures: Rethinking Infrastructure](#), OECD, 2018.

⁵ [G20 Green Finance Synthesis Report 2016](#), [G20 Green Finance Synthesis Report 2017](#), [G20 Sustainable Finance Synthesis Report 2018](#).

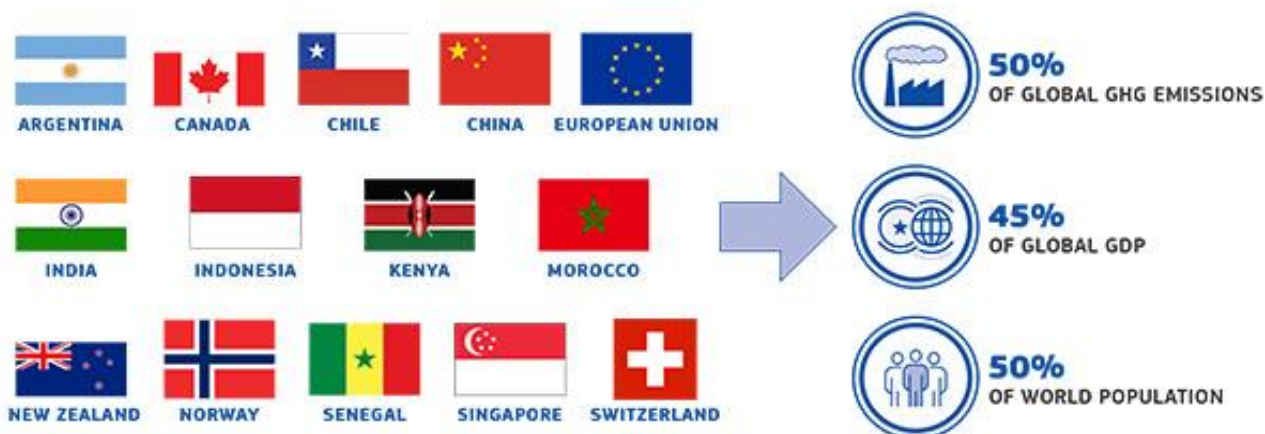
b. 14 jurisdictions have been joining forces under the International Platform on Sustainable Finance to mobilise private investors for the green transition

Promoting integrated markets for environmentally sustainable finance is key in order to mobilise international investors. This requires coordinating approaches and developing coherent sustainable finance frameworks/tools, in particular in areas that enable investors to identify green investment opportunities across the globe. This will ultimately reduce transaction costs and help smooth the path to more cross-border capital flows into green projects.



A decisive step in this direction was taken on 18 October 2019, when public authorities from **Argentina, Canada, Chile, China, India, Kenya and Morocco** together with the **European Union**, committed to join their forces under the International Platform on Sustainable Finance (IPSF).

Since its launch, six other countries have joined the International Platform: **Indonesia, New Zealand, Norway, Senegal, Singapore and Switzerland**. Together, the 14 member jurisdictions of the IPSF gather a critical mass of international policymakers and represent around 50% of global greenhouse gas emissions, 50% of world population and almost 45% of global GDP.



The work of the IPSF benefits from the contribution of observers. Recently, the IPSF has welcomed the International Monetary Fund (**IMF**) as a new observer that supports the Platform together with namely the Coalition of Finance Ministers for Climate Action, the European Bank for Reconstruction and Development (**EBRD**), the European Investment Bank (**EIB**), the International Organisation of Securities Commissions (**IOSCO**), the Network for Greening the Financial System (**NGFS**), the Organisation for Economic Co-operation and Development (**OECD**), and the United Nations Environment Programme (**UNEP**). The IPSF plays a complementary role to and coordinates with these initiatives to ensure that the financial system plays its role to achieve the objectives of the Paris Agreement, Sustainable Development Goals, and other shared global environmental priorities.





This initiative is part of the international efforts to meet the Paris Agreement commitments and is essential to stimulate investment and redirect capital flows towards our climate and environmental objectives at the scale and speed required for the most important economic transition of our time.

The IPSF offers a unique multilateral forum of dialogue between policymakers that are in charge of developing sustainable finance policy. The international platform focuses particularly on initiatives in the areas of taxonomies, disclosures, standards and labels, which are fundamental for investors to identify and seize investment opportunities worldwide that truly contribute to climate and environmental objectives.

As set out in the Joint Statement⁶ that all members have co-signed, IPSF members are committed to exchanging and disseminating information to promote best practices, comparing their different initiatives and identifying barriers and opportunities to enhance environmentally sustainable finance globally while respecting their respective national and regional contexts. Where appropriate, willing members can further strive to align their initiatives and approaches. For members that have fewer sustainable finance policies in place, the IPSF is the opportunity to learn from other countries and develop initiatives that reflect international practices.

The IPSF is not a standard setting body. However, by underlining the commonalities and differences among members and aligning initiatives and tools wherever possible, the work of the IPSF will be fundamental to prepare the ground for International Standard Setters to develop globally applicable sustainable finance standards.

⁶ The signed Joint Statement can be found in Annex I.

 WHAT THE IPSF IS	 WHAT THE IPSF IS NOT
It is a multilateral forum for facilitating exchanges .	It is not an institutionalised body , nor does it create any binding, legal or financial obligations on any member under domestic or international law.
It compares and coordinates efforts on initiatives and approaches to environmentally sustainable finance, while respecting national and regional contexts.	It does not create global standards nor does it impose to its members to adhere to other members' rules or approaches on environmentally sustainable finance.
It is a forum for public authorities in charge of developing environmentally sustainable finance policies and initiatives (ministries of finance/economy, central banks, and supervisory and regulatory authorities).	It is not a forum for private companies whether or not, working on environmentally sustainable finance issues.

The IPSF is organised around a high-level Steering Committee, composed of senior representatives of the members and, on a voluntary basis, observers of the International Platform. The Steering Committee meets once a year (in October) and forms the executive body of the IPSF. It is in charge of monitoring progress providing general strategy and steer the direction of travel. Additionally, in order to implement the priority actions, **the IPSF gathers experts of members and observers at technical level**. Since the launch of the IPSF, experts have met (mainly virtually) on five occasions.

The overall coordination of the IPSF is ensured by the **Secretariat** that is chaired by the European Commission for an initial period of two years. After that period, it will be taken over by (an)other willing IPSF member(s). Annex II provides further details on the organisation of the IPSF work.

c. Sustainable finance will have a major role to play in the post-pandemic global economic recovery

The Covid-19 outbreak and its impacts on health and the economy have sadly dominated the global agenda in 2020.

Governments' first priorities in tackling the COVID-19 pandemic are to overcome the health emergency and to implement rapid economic rescue measures. As the focus of governments around the world shifts from emergency response measures towards the post-crisis economic recovery, policies need to focus on the future and on building back better, including aligning recovery measures in support of climate and environmental objectives in line with a transition towards a local carbon economy. Over the next two years, governments around the world are set to spend around EUR 10 trillion on recovery efforts from the Covid-19 outbreak.⁷ We must keep in mind that the choices we make today will define our future in the years to come.

While the multiple dimensions of "building back better" span many different policy areas, **sustainable finance has a major role to play to contribute to a sustainable and resilient recovery after the COVID-19 pandemic crisis.** Thanks to its set of tools that rely on robust and transparent definitions and standards, sustainable finance is part of a broad-based effort to guide financial allocation and investment flows in support of climate and environmental objectives. Amongst its key tools, the most common are **disclosures** of economic operators' environmental footprints, product

⁷ Cassim et al. "[The \\$10 trillion rescue: How governments can deliver impact](#)", 2020.

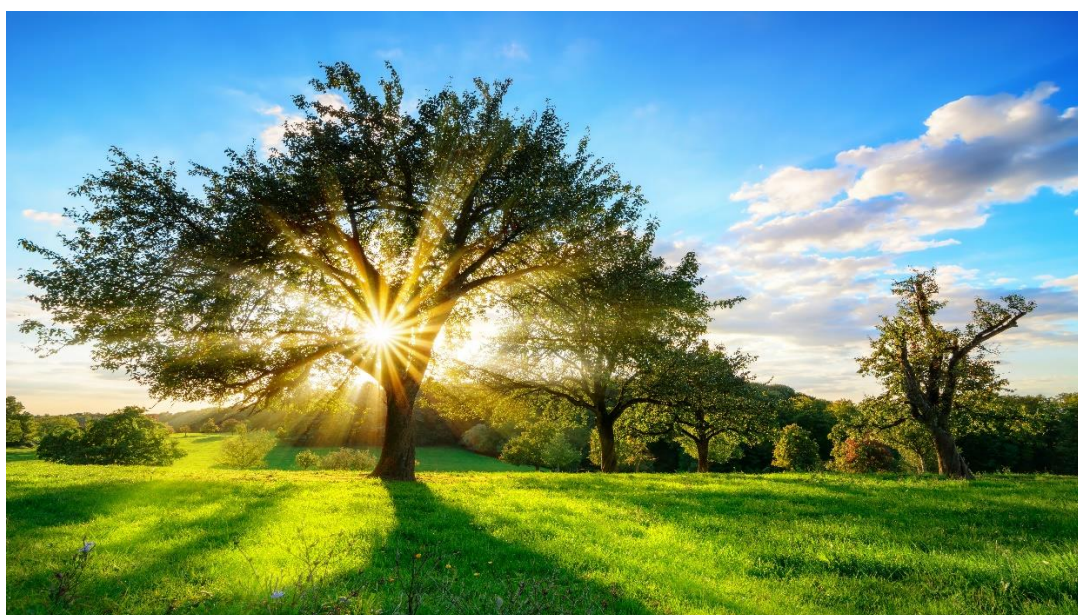
standards and labels, such as a green bond standard, and a classification system (a ‘**taxonomy**’) that offers transparency on what constitutes an environmentally sustainable investment.

Together, these **tools form part of a spectrum of measures** that work with the grain of the market and **help public authorities, economic operators and investors factor long-term environmental sustainability considerations into their decision-making processes**, encouraging a longer-term horizon for investment decisions. Sustainable Finance also contributes to increasing the potential for public finance to catalyse private investment.

EU and Canada’s experience – Sustainable Finance in a recovery context

In Europe, the European Commission’s proposed recovery plan⁸ (with EUR 750 billion recovery instrument, Next Generation EU) aims to guide and build a more sustainable, resilient and fairer Europe for the next generation. The European Commission is committed to make the European Green Deal – its sustainable growth strategy - one of the key drivers of the recovery within the EU, both as regards issuances – through the emission of green bonds – and expenditures – through the compliance with the “do no significant harm” principle.

In Canada, the Large Employer Emergency Financing Facility (LEEFF), launched by the Government of Canada on 20 May 2020, is designed to provide liquidity support through bridge financing to large Canadian employers whose needs during the COVID-19 pandemic are not being met through conventional financing. The intent of LEEFF is to help large businesses preserve their employment and continue operations during this difficult time. Any business accessing LEEFF will be subject to a number of requirements while the loan is outstanding. In particular, **companies that receive LEEFF funding will be required to produce an annual climate-related financial disclosure report** highlighting how their corporate governance, strategies, policies and practices will help manage climate-related risks and opportunities and contribute to achieving Canada’s commitments under the Paris Agreement and goal of net zero by 2050. The report should be consistent with the recommendations of **the Financial Stability Board’s Taskforce on Climate-related Financial Disclosures** (TCFD). The climate-related disclosure report is part of the ongoing compliance with LEEFF loan terms but not a pre-condition to be considered for LEEFF loans.



⁸ [Europe's moment: Repair and Prepare for the Next Generation](#), COM(2020) 456 final

2. Sustainable finance: Global trends and evolution in the COVID-19 context

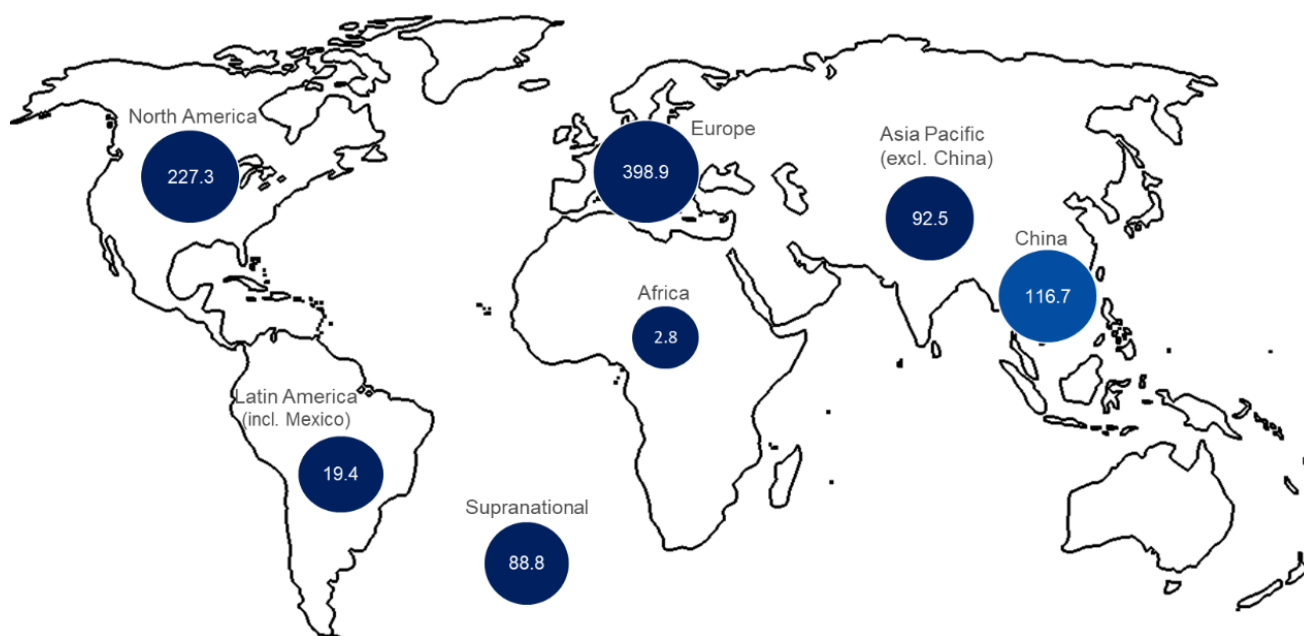
Sustainable finance is evolving rapidly across the world. Increased volumes and diversity of green/sustainable financial instruments on the market (bonds, loans, sukuk etc.) show the appetite of companies and investors for these products, but overall a much greater expansion is needed to reach our climate and environmental targets.⁹

a. Market trends: from green bonds towards more innovative financial instruments for financing the sustainable transition

Green bond issuances have driven the growth of green markets over the last decade

Green bonds (a type of fixed-income security whose proceeds are used to finance investment projects with an environmental benefit) are amongst the most powerful financial instruments to raise capital for the transition to a sustainable economy. They help connect finance with the needs of the real economy.

In less than a decade, green bonds issuances have grown from a handful of development bank issuers to a USD250bn per year market.¹⁰ In the early years, green bonds were mainly issued by multilateral development banks (MDBs)¹¹ in ‘easy green’ areas such as renewable energy and energy efficient buildings. Since then, the range of issuer types and use of proceeds have rapidly developed and diversified over the years. Today, market participants represent financial and non-financial corporates, sovereigns, and asset backed security (ABS) issuers that have become comfortable with the green label being applied to a wider range of sectors and activities (e.g. low carbon transport and water). It has attracted issuers from around the world in both developed and emerging markets.¹² Among these, IPSF member jurisdictions have taken on a leading role, especially through the high volumes of issuance in **China, the EU** and the large sovereign bond program of **Chile**.



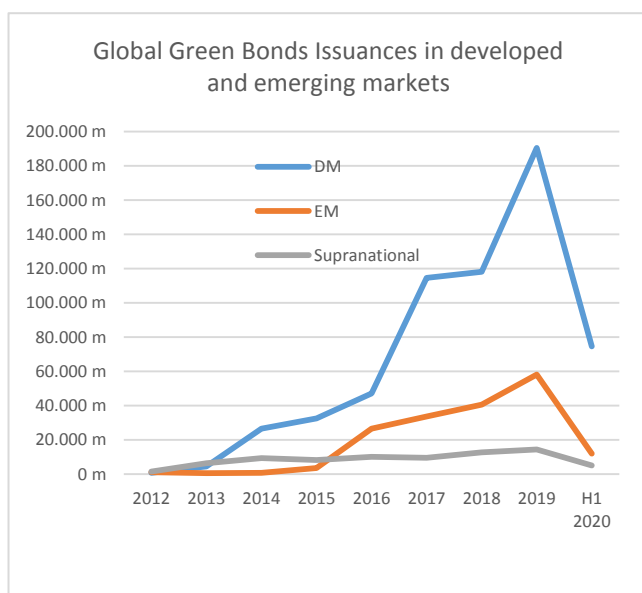
Cumulative green bond issuance (USDbn) in 2007-Q3 2020 by region

⁹ This section has been prepared with the analytical support of Climate Bonds Initiative (CBI). The figures reflect CBI’s methodology to assess the alignment of green bonds.

¹⁰ See the development on green bond standard in section 3.a.

¹¹ In 2007, the EIB issued the world’s first Green Bond, labelled a Climate Awareness Bond (CAB).

¹² EM includes both MSCI ‘emerging’ and ‘frontier’ markets – [MSCI: Market Classification](#)



2019 marked another record year for the Green Bond market with an increase by 49% to USD250 billion. **In 2020, due to the COVID-19 pandemic, the green bond market experienced a slowdown but remains dynamic.** For the first time in the history of the Green Bond market, the new issue volume in the first half of 2020 has considerably dropped compared to its 2019 levels (down by 26% to USD91.6bn). Since then, volumes have recovered and Q3 issuance in 2020 was broadly in line with 2019 (USD66.8bn in 2020 compared to USD68bn in 2019). By the end of September new issue volumes surpassed USD163bn, driven in particular by IPSF member countries.

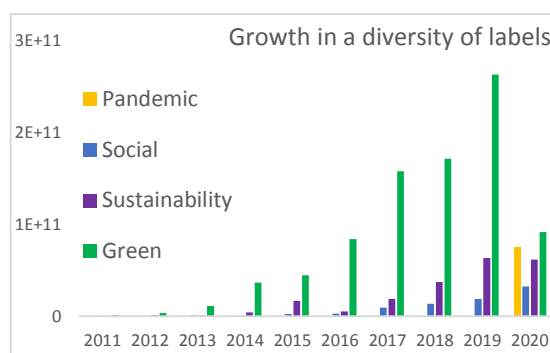
Beyond Green bonds: innovative ways for financing the sustainable transition are flourishing

The green bond market has spurred growth in other types of labelled bonds - social bonds sustainable/SDGs bonds and, more recently, pandemic bonds. The depth and diversity of global markets has added to the range of labelled bonds available.

Social bond issuance - although supported by the release of the Social Bond Principles (SBP) in 2017 - has seen moderate growth over the past few years¹³. While the need for social projects is large, in practice the majority of pure **social bonds** are issued by multilateral or government entities, given the challenge of identifying social projects with cash flows that can be financed in a bond structure.

Sustainability bond issuance has grown in recent years to include issuers with both green and social assets/projects. The growth has been supported by both the Green Bond Principles and Social Bond Principles¹⁴.

Many bonds with a 'sustainable' label are classified as 'green' in the Climate Bonds Green Bonds Database, because more than 95% of the use of proceeds are stated as green. This includes some areas where there is overlap between green and social spending, such as affordable housing which meet ambitious energy efficiency standards.



Lastly, the COVID-19 pandemic resulted in a new type of instrument: **pandemic bonds**. The main source of growth in pandemic bonds has come from Chinese issuers. To date, the aim of pandemic bonds has been two-fold: providing short-term emergency funding for liquidity to banks, and issuing small shares for personal protective equipment and other healthcare-related spending. At this point, the 'pandemic' label may drop away and the green label may be used to raise finance for green stimulus packages which have been a strong political narrative in the post-COVID-19 recovery.

Across markets in the Middle East, Africa and South East Asia, there is growing demand for green **sukuk** (green Islamic bond - bond that adheres to the principles of Islamic law (Sha'riah)). A green

¹³ [ICMA, Social Bond Principles \(SBP\), updated in June 2020.](#)

¹⁴ Voluntary best practice guidelines called the "[Green Bond Principles \(link is external\)](#)" (GBP) were established in 2014 by a consortium of investment banks. Ongoing monitoring and development of guidelines has since moved to an independent secretariat hosted by the [International Capital Market Association \(ICMA\)](#)

sukuk has the potential to channel the USD2tn Islamic finance market towards the funding of green and sustainable investment projects. The global sukuk market grew at a pace of around USD100bn of issuance in 2019, with around 18% growth rate annually. Within this market, the green sukuk surpassed USD4bn of issuance in 2019.¹⁵

Beyond green bond markets, other financial instruments, such as **green loans**, have great potential to play a central role in the transition to a sustainable economy. Evolutions in the global labelled loan market have spurred two trend-setting products: **green loans** and **sustainability-linked loans** (and to a lesser extent sustainability-linked bonds). Both of these innovations have made inroads in global financial markets.

Green loans are much like green bonds in that they apply 'use of proceeds' structures, where finance raised by the bond is earmarked to fund only eligible green assets or projects. While the labelled market is still small (less than USD12bn¹⁶ issued in 2019), the growth of a labelled green loan market is a positive step in enabling more sectors and entities to have access to sustainable finance markets. In particular, SMEs may regularly borrow through the loan markets but cannot achieve the scale needed to issue green bonds. This, in turn, may open up sustainable finance markets to sectors that are not regular users of the bond market such as agriculture.

The rise of **sustainability-linked loans** is a key trend making an impact in global financial markets. 'Sustainability-linked' loans (SLL) and bonds (SLB) are performance-based products where finance raised is for general corporate purposes but the interest rate varies based on the achievement of predetermined sustainability performance objectives. Parameters are usually set at an entity level, and can be at or above the borrower's own ESG targets. The rapid increase in global volumes of SLLs is spearheading sustainable developments in the loan market. In 2019, the SLL market was USD122bn globally while the SLB market was much smaller at less than USD2bn. The European market leads growth with more than 80% of global SLL activity. The uptake of sustainability linked loans and bonds has been driven, in part, by the nature of the loan market itself. The close relationship between lenders and borrowers enables lenders to provide incentives for ESG/sustainability performance, and to absorb a variation in the margin on a loan. SLLs are useful for certain borrowers and work well in the bank lending markets. The format of SLLs and SLBs has raised a number of questions, for example as to how investors can ensure and evaluate impact. In particular the main concern is that targets tend to be entity-specific, meaning they are hard to compare against peers. Despite these drawbacks, the sustainability-linked market is a valuable tool, particularly in helping companies to fund their transition strategies as articulated by the targets.

Despite their rapid growth, sustainable financial markets, in particular green bond issuances, are far from reaching the level required to achieve our climate and environmental goals

While sustainable financing is moving mainstream and new financial products have reached record levels in volume, investments currently fall short of what is needed to meet agreed climate goals. Annual **total green bond** issuance reached **USD 250 billion** in 2019, which account for **only 3.5% of total global on bond issuances**.¹⁷ Using slightly different definitions, Climate Policy Initiative reports climate flows of USD546bn in 2018.¹⁸ These figures should be put into perspective with the OECD estimates that achieving the goals of the Paris Agreement will require **USD6.9tn annually** on a global scale by 2030.¹⁹ Further, the growth in green bond issuances remains unevenly distributed across

¹⁵ S&P, *The Development of the Global Sukuk Market from an Indexing Perspective*, 2020

¹⁶ Current figures only include loans that are labelled publicly as green (e.g. in official documentation or press releases) which means that they cannot easily be identified. However these loans have been used to raise finance for green projects for decades without being labelled as green and therefore 'actual' volumes may be much higher.

¹⁷ Ehlers, Mojon, Packer, "[Green bonds and carbon emissions: exploring the case for a rating system at the firm level](#)", *BIS Quarterly Review*, 2020

¹⁸ Buchner, B. et al. «[Global Landscape of Climate Finance 2019](#)» *Climate Policy Initiative*, 2019. These figures account for 2018, while the figure p. 8 shows the annual flows on average, over the two-year period of 2017/2018.

¹⁹ OECD/The World Bank/UN Environment, [Financing Climate Futures: Rethinking Infrastructure](#), OECD, 2018

world regions. For instance, in EMDEs, although there is an increasing issuance of green bonds, the market is developing at a much lower pace and scale than in developed countries.²⁰ According to CBI, the Green Bond market reached USD609,5bn in developed markets, compared to USD176,9bn in emerging markets, the latter includes USD139,9bn issuance in China).²¹ Thus, although green financial markets have already rapidly grown and are expected to grow further in the coming years, the market is not developing fast enough to contribute to filling the investment gap needed to reach the objectives of the Paris Agreement.

b. Regulatory trends: sustainable finance policies and initiatives globally

The global regulatory landscape of sustainable finance continues to evolve rapidly both within the IPSF membership and beyond, as countries look to accelerate transitions for sustainability and climate change.

In the **ASEAN region**, regulatory frameworks for sustainable finance markets are forging ahead at national and regional level. At national level, countries like **Malaysia** and **Singapore**²² have made progress in considering the development of green taxonomies. Beyond the scope of taxonomies, Singapore and Malaysia have also introduced incentive mechanisms for green bond issuances. In Malaysia, a tax deduction of issuance costs for issuers and tax exemptions for investors were in place until 2020 for socially responsible sukuk and green sukuk, while the Monetary Authority of Singapore (MAS) launched the Sustainable Bond Grant scheme in June 2017 to catalyse the green, social and sustainable bond market in Singapore (see section 3.b.). In November 2019, MAS launched the Green Finance Action Plan²³ which comprises four key thrusts: strengthening the financial sector's resilience to environmental risks, developing markets and solutions for a sustainable economy, harnessing technology to enable trusted and efficient sustainable finance flows, and building a strong base of knowledge and capabilities in sustainable finance. On these four fronts, MAS has taken these respective steps: (i) launched a public consultation on Environmental Risk Management Guidelines for the banking, insurance and asset management sectors which will be issued in Q4 2020, (ii) launched a US\$2 billion Green Investment Programme to invest in public market investment strategies with a strong green focus and started development of a Green and Sustainability Linked Loan Grant Scheme, (iii) launched the MAS Global Fintech Innovation Challenge to support ground-breaking innovations to respond to climate change and the COVID-19 pandemic and (iv) launched Singapore's first centre of excellence, the Singapore Green Finance Centre, to develop Asia-focused research and talent in green finance.



In **Malaysia**, a Joint Committee on Climate Change (JC3)²⁴ was established in September 2019 as a platform to drive and support collective climate change actions within the financial sector. In addition, Islamic financial institutions in Malaysia have developed detailed guidance that incorporates ESG risk considerations in financing and investment decision making process for selected sectors. Three draft guides have been issued for consultation in August 2020 through the issuance of the Value-based Intermediation Financing and Investment Impact Assessment Framework (VBIAF) Sectoral Guides on Palm Oil, Renewable Energy and Energy Efficiency.

²⁰ IFC & SBN, [Creating Green Bond markets](#), 2019

²¹ EM includes both MSCI 'emerging' and 'frontier' markets

²² See Chapter 3 Section a) on Taxonomies

²³ ["Green Finance for a Sustainable World"](#) - Keynote Speech by Mr Ong Ye Kung, Minister for Education, Singapore and Board Member, MAS, at SFF x SWITCH 2019 on 11 November 2019.

²⁴ The JC3 is chaired by the Central Bank of Malaysia and Securities Commission Malaysia, with members and observers comprising the stock exchange, financial institutions, institutional investors and non-government organisations

In 2020, to promote sustainable financing, **Thailand** has established a Sustainable Financing Framework that covers social and environmental investment projects based on the United Nations Sustainable Development Goals (UN SDGs). Thailand, plans to issue Green Bond, Social Bond, and Sustainability Bond, all of which aligned with the ASEAN respective Bond Standards of the ASEAN Capital Market Forum and the International Capital Market Association. For the first badge, Public Debt Management Office (PDMO) has issue bonds to promote sustainable finance totaling up to 30 billion baht comprises of (1) green bonds for the Orange Line Metro project with the total amount not exceeding 10 billion baht and (2) social bond for COVID-19 financing with the total amount not exceeding 20 billion baht.

At regional level, the ASEAN Capital Markets Forum (ACMF), which comprises capital markets regulators from all ten ASEAN member states, developed and launched the ASEAN Green, Social and Sustainability Bond Standards in 2017-2018. In May 2020, the ACMF developed a Roadmap for ASEAN Sustainable Capital Markets to guide the strategy of the ACMF in developing initiatives to support ASEAN's sustainable development agenda for the next five years. The public authorities of the ASEAN+3²⁵ and the Asian Development Bank (ADB) introduced, in March 2020, a technical assistance (TA) programme to create the necessary ecosystems for green local currency bonds for infrastructure development in ASEAN+3 jurisdictions. One of TA's key initiatives is to promote the use of the ASEAN+3 Multi-Currency Bond Issuance Framework (AMBIF), a common regional bond issuance programme that allows issuers to issue bonds in multiple jurisdictions through universal procedures. To date, seven markets have adopted ABMIF, namely Cambodia, Hong Kong, Japan, Malaysia, Philippines, Singapore and Thailand.

Beyond the ASEAN region, **China** has developed a comprehensive framework for green finance. The government's regulatory administration and stock exchange have played a crucial role in promoting the development of green finance in China. In 2016, Guidelines for Establishing the Green Financial System were jointly issued by seven ministries including the People's Bank of China (PBoC)²⁶. The first Green Bond Endorsed Projects Catalogue was issued in 2015 and updated by PBoC in June 2020, thereby unifying green bond guidelines in China. The 2020 draft Catalogue constitutes a significant step forward for China because it excludes solid fossil fuels from eligibility. Already in 2019, the National Development and Reform Commission (NDRC) and other government entities published the Green Industry Guiding Catalogue that aimed to become the basis for a consistent set of standards for green loans, bonds and other green assets (however, the NDRC Catalogue still allowed for solid fossil fuel financing). One feature that is unique to China is that local governments at all levels are actively formulating their own plans to develop green finance in their regions. In 2017, China's State Council approved the establishment of regional green finance pilot programs in five provinces, including Zhejiang, Guangdong, Jiangxi, Xinjiang and Guizhou.

Japan has also taken a step towards the development of sustainable finance markets. In 2020, Japan's Ministry of Environment published its updated Green Bond Guidelines, expanding the scope to cover green loans and sustainability linked loans. Japan Financial Services Agency revised Japan's Stewardship Code in March, which redefines "stewardship responsibilities" and explicitly instructs institutional investors to consider medium- to long-term sustainability, including ESG factors, consistent with their investment management strategies²⁷. In July, the industry-led TCFD Consortium in Japan updated the guidance on Climate-Related Financial Disclosures, which provides detailed commentary on how to implement the TCFD recommendations for five industrial sectors,

²⁵ ASEAN+3 includes the 10 members of the Association of Southeast Asian Nations plus China, Japan, and South Korea

²⁶ People's Bank of China, Ministry of Finance, Development and Reform Commission, Ministry of Environmental Protection, China Banking Regulatory Commission, China Securities Regulatory Commission, and China Insurance Regulatory Commission, Guidelines for Establishing the Green Financial System, 2016.08.31.

²⁷ JFSA website "[Finalization of Japan's Stewardship Code \(Second revised version\)](#)"

incorporates the latest knowledge on TCFD disclosures and promotes TCFD disclosure in a broader range of industries²⁸.

In **India** the Securities and Exchange Board of India (SEBI) has been driving the green finance agenda, primarily by implementing sustainability reporting and disclosure regulations. The Indian taxonomy is linked to disclosing the proceeds of green bonds issued according to guidelines by the securities regulator.

New Zealand is developing a sustainable finance framework from several directions. The Reserve Bank of New Zealand (RBNZ) invested in USD100m of green bonds in 2019 as part of its Climate Change Strategy set in 2018.²⁹ Also in 2019, the Government banned investment in fossil fuel production from default pension schemes. In August 2020, the Government agreed to introduce a mandatory Taskforce on Climate-related Financial Disclosures (TCFD)-based regime across the financial sector.

In the **Americas** public authorities have also made significant advances. In **Argentina**, the Government has begun to provide tax incentives for green projects³⁰ and the National Securities Commission (CNV) released Guidelines for the issuance of social, green and sustainable bonds.³¹ In June 2019, **Chile** issued the first sovereign green bond in Latin America. On the same year, Chile released its Green Bond Framework.³² In **Mexico**, the Climate Finance Advisory Group (CCFC)³³ launched in 2018 Mexico's Green Bonds Principles. Guidelines on green bonds have also been issued in **Brazil** by the Brazilian Federation of Banks and the Brazilian Business Council for Sustainable Development³⁴, while the National Stock Exchange of **Costa Rica** has published a Guide for the Definition and Management of Green Projects, which targets companies interested in issuing green bonds.³⁵ The latter is part of Costa Rica's ambition to become carbon neutral (including offsets) by 2021. In 2019, **Canada's** Expert Panel on Sustainable Finance delivered its final report to the Government of Canada. The Government of Canada has taken early action on some of the recommendations, including announcing its support for the Financial Stability Board's Taskforce on Climate-related Financial Disclosures standards. Finally it is worth noting that **Colombia** has started to work on the development of a green taxonomy and that is exploring the possibility of issuing a green bond as part of its 2020 debt issuance strategy.³⁶

On the African continent, the Financial Regulatory Authority of **Egypt** approved the legal framework for issuing green bonds in July 2018³⁷, which is based on ICMA GBPs, and aims at providing financial tools to fund eco-friendly projects in the fields of new and renewable energy, construction, and transport. In **Ghana**, the Ministry of Finance is exploring the potential to develop a framework under which it could issue green and socially responsible sustainable bonds.³⁸ The bonds would be designed to contribute to the NDC targets agreed under the Paris Climate Agreement, and the United Nations Sustainable Development Goals (SDG). Finally, the Securities and Exchange Commission of **Nigeria** ("SEC") has recently launched its Green Bonds Issuance Rules. **Kenya** adopted the 2016 Climate Change Act³⁹, a framework for promoting climate resilient low carbon development and included the creation of the Climate Change Fund to encourage green finance flows. Kenyan regulators also issued Green Bond Guidelines in 2018.

²⁸ TCFD Consortium website "Guidance on Climate-related Financial Disclosures 2.0 ([TCFD Guidance 2.0](#))"

²⁹ See [Reserve Bank Climate Change Strategy](#).

³⁰ [PWC World Tax Summaries, 2020](#)

³¹ Comision Nacional de Valores, [Guidelines for the issuance of social, green and sustainable bonds](#), 2019.

³² See: <https://www.hacienda.cl/documento/descargar/id/21547>.

³³ The CCFC is an independent organization that has as its stated objective the promotion of climate finance in Mexico

³⁴ FEBRABAN, CEBDS, [Guidelines for issuing green bond in Brazil](#), 2016

³⁵ Bolsa Nacional de Valores, [Guide for the Definition and Management of Green Projects](#)

³⁶ Latin Finance, ["Colombia development of green taxonomy and possible issuing of green bond as part of its 2020 debt issuance strategy", 2019](#)

³⁷ Financial Regulatory Authority of Egypt, "Concept Paper: Green Bond Guidelines

³⁸ UNDP Ghana, ["Exploring the potential of Green Bonds for SDGs financing in Ghana", 2020](#)

³⁹ [Kenya, Climate Change Act, 2016](#)

The **Moroccan** Capital Markets Authority (AMMC) has led several initiatives to green the country's financial system. In 2018, the AMMC amended its Green Bonds Guidelines⁴⁰ to launch the Green, Social and Sustainability Bond Guidelines⁴¹. The Moroccan central bank (Bank Al-Maghrib) is committed to establishing a "climate finance" roadmap for the Moroccan banking sector and a national framework for the development of sustainable finance in Morocco. As part of the draft regulatory directive on the principles of financial risk management linked to climate change and the environment (currently being finalized), Bank Al-Maghrib recommends that banks adopt the international standards of the TCFD and GRI. **Senegal** is a member of the West African Monetary Union and applies community-based regulations. Also, the Regional Financial Market Regulatory Authority published in March 2020 a guide for the issuance of green, social and sustainable bonds. In addition, a law on the orientation of the social and solidarity economy is being drawn up. In particular, it plans to deal with corporate social responsibility, regarding the impact of companies on social and environmental needs and on the aspirations of Senegalese society.

In step with global developments, **South Africa's** National Treasury released a technical paper on Sustainable Finance in May 2020⁴², which was developed by a working group consisting of SA Reserve Bank (SARB), financial regulators and financial sector industry associations. The paper's focus is on addressing climate risk and the opportunities for the financial sector to contribute positively to green objectives and support the transition to a low carbon and climate-resilient economy, which is socially inclusive and sustainable. Key recommendations include developing a green finance taxonomy, creating technical guidance for disclosures, as per the TCFD, and developing a benchmark climate risk scenario for use in stress tests by the financial sector and the regulators.

The European Union made major advancements on the implementation of the 2018 Action Plan on financing sustainable growth. In 2019, the EU amended its benchmark regulation to create a Paris-Aligned Benchmark and an EU Climate Transition Benchmark, and adopted a regulation on sustainability-related disclosures for the financial services sector. In June 2020, the EU adopted the Taxonomy Regulation to provide a classification system for investors to assess environmentally sustainable economic activities.⁴³ The Taxonomy Regulation provides for a general framework that will allow for the progressive development of the EU taxonomy. The general framework will be further refined through the adoption of delegated acts specifying the technical criteria for an economic activity to be included in the taxonomy. The delegated acts on climate mitigation and climate adaptation will be adopted by the end of this year and for the four other environmental objectives by the end of the following year. With the announcement of the European Green Deal (EGD) and with the increased ambition to cut by 2030 greenhouse gas emission by at least 55% compared with 1990), the Commission aims to adopt a Renewed Sustainable Finance Strategy in early 2021. Among this set of actions, the Commission will develop an EU green bond standard and will review its Non-Financial Reporting Directive.

In **Norway** through the European Economic Area (EEA) Agreement, the EU regulation is transposed into Norwegian law, for example the Regulation on EU climate benchmarks and benchmarks' ESG disclosures were incorporated into Norwegian law in May 2020. The EU Taxonomy Regulation and the Regulation on sustainability-related disclosures in the financial services are both EEA relevant and are expected to be incorporated into the Agreement and implemented in Norwegian law. In **Switzerland**, the Federal Council published a report on sustainability in the financial sector in June 2020.⁴⁴ Switzerland has stated its ambition to become a leading location for sustainable financial

⁴⁰ [AMMC Green Bonds Guidelines](#)

⁴¹ [SBN, Green, Social and Sustainability Bond Guidelines, 2018.](#)

⁴² National Treasury Financial Sector Policy Unit published the draft technical paper Financing a Sustainable Economy in May 2020 for comments. Comments have been received and the paper is being revised. The draft paper can be found here: [Financing a Sustainable Economy - Technical Paper 2020 Draft](#)

⁴³ Please consult section 2 for more information on taxonomy(ies).

⁴⁴ [Federal Council Report - Sustainability in Switzerland's financial sector.](#)

services,⁴⁵ providing framework conditions for sustainability and sustainable growth. Switzerland considers the internalisation of greenhouse gas emissions into asset prices as a key instrument to align financial flows with international environmental goals. While Switzerland already has one of the world's highest carbon levies, the Swiss parliament furthermore decided this summer to almost double the maximally allowed carbon levy for heating and process fuels to USD220 per tCO₂. It also made transportation subject to carbon compensation (revisions are subject to a potential popular vote).

The **United Kingdom** issued the Green Finance Strategy on 2 July 2019, which enshrines distinct national and global objectives. The Strategy supports the UK's economic policy for strong, sustainable, and balanced growth. In February of 2020, the UK launched the COP26 Finance Action Plan to help private finance support the global economy transition to net zero. Finally, the City of London established the Green Finance Initiative (GFI), under the auspices of the Treasury, the ministry of environment (DEFRA) and the Bank of England. The GFI aims to improve the financing options for sustainable infrastructure projects and support the sector's development.

As many countries across the world are drawing their sustainable finance roadmaps, **ESG risks integration in asset managers and institutional investors' investment decision process is an increasingly relevant area for policymakers.**

Fiduciary duty and sustainability⁴⁶

Worldwide changes in sustainable investment practice and policies have reinforced that investors failing to incorporate ESG issues are failing their fiduciary duties.

Fiduciary duties of investors require them to:

- Incorporate environmental, social and governance (ESG) issues into investment analysis and decision-making processes, consistent with their investment time horizons.
- Encourage high standards of ESG performance in the companies or other entities in which they invest.
- Understand and incorporate beneficiaries' and savers' sustainability-related preferences, regardless of whether these preferences are financially material.
- Support the stability and resilience of the financial system.
- Report on how they have implemented these commitments.

Regulations and guidance in key jurisdictions have clarified the interpretation of fiduciary duties to include ESG issues. Examples include:

- The UK Department for Work and Pensions clarified that from October 2019, pension schemes are required to set out their approach to material ESG risks in their Statements of Investment Principles.
- The EU's IORP II Directive, adopted at the end of 2016, requires occupational pension providers to evaluate ESG risks and disclose information to current and prospective scheme members. The EU Sustainability Disclosures Regulation adopted in 2019 clarifies sustainability-related disclosure obligations in the financial services sector.

The International Organisation of Pension Supervisors (IOPS) Guidelines on the Integration of ESG Factors in the Investment and Risk Management of Pension Funds, stating that "Supervisory authorities should clarify to a pension fund governing body or the asset managers, possibly through regulations, rules or guidelines, that the explicit integration of ESG factors into pension fund investment and risk management process is in line with their fiduciary duties."

⁴⁵ Swiss Federal Council – [Press release: Switzerland to become a leading location for sustainable financial services.](#)

⁴⁶ [Fiduciary Duty in the 21st Century, PRI, UNEP FI, 2019](#)

c. *The sustainable finance landscape is increasingly shaped by digital innovation in the financial sector*

FinTech and digital innovation can play a key role in addressing challenges impeding the growth of sustainable finance. Technologies such as blockchain, artificial intelligence (AI), big data and the internet of things (IoT), can be applied to inject greater integrity, transparency and efficiency in sustainable finance decision-making and transactions. Some examples include:



- **Enhancing environmental risk management and screening of investments and benchmarking of green finance products** through big data, AI and machine learning to process vast amounts of data points from multiple sources to support the incorporation of ESG factors in pricing and decision-making.
- **Enabling real-time monitoring, tracking and verification of environmental data to support climate finance and nature-based solutions** through satellites, drones, IoT and remote sensing technology.
- **Increasing credibility of green finance products and solutions such as green bonds** through blockchain technologies to digitalise processes and enable immutability of data as well as real-time monitoring of the environmental impacts of financed projects with the help of IoT technologies.
- **Improving traceability of supply chains** through blockchain and smart contracts to collect and track environmental data of suppliers, and increase the efficiency of trade financing processes.
- **Providing greater access to sustainable finance** through digital platforms which facilitate the matching between green projects and investors/financiers, and aggregation of project data points across multiple sources.

Examples of IPSF Members Progress in Green FinTech

In **Singapore**, the Monetary Authority of Singapore (MAS) announced a **Green Finance Action Plan in November 2019**, which comprises four key thrusts: strengthening the financial sector's resilience to environmental risks, developing markets and solutions for a sustainable economy, harnessing technology to enable trusted and efficient sustainable finance flows, and building a strong base of knowledge and capabilities in sustainable finance. As part of the MAS' efforts to harness FinTech to spur green finance, MAS launched the MAS Global FinTech Innovation Challenge in June 2020. Themed "Building Resilience, Seizing Opportunities and Emerging Stronger", the challenge seeks to recognise ground-breaking solutions that enable the financial sector to effectively respond to two key global challenges – the COVID-19 pandemic and climate change. Close to 600 proposal submissions from more than 50 countries were submitted, spanning across a range of enablers for green finance and offering innovative solutions to challenges faced by financial institutions in managing climate risks. MAS will continue to work with the industry and global FinTech companies to recognise and develop innovative solutions to promote and support sustainable finance globally.

In **Switzerland**, in June 2020, the Swiss Federal Council adopted a report and guidelines on sustainability in the financial sector, highlighting the importance of green fintechs as innovation drivers in the Swiss financial centres. The State Secretariat of International Finance (SIF) is optimizing the framework conditions to further develop Switzerland as a global green fintech hub, building on Switzerland's existing excellence in innovation and financial services. SIF launched the 2020 Green FinTech Survey to identify barriers and opportunities for fintechs to provide an effective environmental impact that transcends Switzerland's borders. It is establishing a technical working group, consisting of key stakeholders from the green fintech ecosystem to jointly develop concrete recommendations and take action.

3. Identifying the adequate SF tools and finding alignment

a. Taxonomies of sustainable economic activities and financial instruments

Why do we need green taxonomies?

Investors are increasingly asking for enhanced clarity on what economic activities they can unambiguously consider environmentally sustainable for investment purposes. Systems that classify such activities, or “taxonomies”, help investors to identify truly green finance opportunities and provide them with a transparent and credible list of prospective green investments. They hence provide appropriate signals and more certainty to economic actors and protect investors by avoiding the risk of green-washing. By improving market clarity and confidence, taxonomies facilitate green investments.

For issuers, taxonomies provide a clear set of principles or requirements to fulfil in order for their activities to be considered environmentally sustainable. Taxonomies could also have broader purposes beyond financial markets, for example to guide public investments and taxation to promote environmental goals. They provide the basis for further policy action in the area of environmentally sustainable finance, including standards and labels, or potential changes to prudential rules.

What is the state of play of taxonomies development within the IPSF membership?

Overall, the development of taxonomies within the IPSF membership is still nascent with a few forerunners having made significant progress.

Three jurisdictions already have classification systems for green finance products in place (China, EU, and India). In the **EU**, the taxonomy is legally in force but not yet applicable⁴⁷, as it is being completed with technical criteria via implementing measures by the European Commission. Through the EEA agreement, the EU Taxonomy will also apply in **Norway**⁴⁸. In **China**, multiple related public authorities⁴⁹ are working together to align classification systems across separately regulated financial markets. The China Banking and Insurance Regulatory Commission was first to develop a green statistical database to control environmental and social risks of banks loans. The People’s Bank of China (PBOC) published the first version of its green bond eligible project catalogue in 2015 along with its green bond issuance management regulation, to help stimulate the green bond market. In 2019, the National Development and Reform Commission (NDRC) published the Green Industry Guidance Catalogue covering green industry sectors across the economy, in order to help authorities formulate policies to support the development of green industry. This has increasingly become an important reference point for authorities to track green lending and investment in their sectors, and the basis for an ongoing process to further consolidate the existing classification tools into a joint taxonomy. The PBOC issued its updated green bond eligible project catalogue 2020 (consultation) jointly with NDRC and CSRC in July this year. In **India**, the taxonomy is linked to disclosing the proceeds of green bonds issued according to guidelines by the securities regulator.

⁴⁶ Regulation (EU) 2020/852 of the European Parliament and of the Council of 18 June 2020 on the establishment of a framework to facilitate sustainable investment, and amending Regulation (EU) 2019/2088. The obligations for issuers and financial market participants to disclose information on their degree of alignment with the Taxonomy will start of as January 2022 for the climate change mitigation and adaptation objectives, and as of January 2023 for the remaining four objectives.

⁴⁸ The EEA EFTA States (Norway, Iceland and Liechtenstein) participate fully in the European internal market and implement the internal market legislation on financial services, including sustainable finance legislation, into their national law.

⁴⁹ Namely the National Development and Reform Commission (NDRC), the People’s Bank of China (PBOC), the China Banking and Insurance Regulatory Commission (CBIRC), and the China Securities Regulatory Commission (CSRC).

Three additional members are contemplating to introduce a taxonomy. **Canada's** industry-led, voluntary taxonomy is currently in development. In **New Zealand**, a public/private expert group is exploring a potential taxonomy for sustainable agriculture. This would be used on a voluntary basis by the banking sector in considering agriculture lending and investment. **Singapore** is also working with the financial sector to assess the potential of a taxonomy for Singapore-based financial institutions, which could cover both green and transition activities and could also be applied to these financial institutions' regional and global operations.

Aotearoa New Zealand's Sustainable Agriculture Finance Initiative – public/private collaboration focussed on agriculture

The Aotearoa Circle is a voluntary initiative in New Zealand bringing together leaders from the public and private sectors to investigate the state of Aotearoa New Zealand's natural resources, and to commit to priority actions that will halt and reverse the decline of natural capital. One such action is the Sustainable Agriculture Finance Initiative (SAFI). Driven by five major banks (ANZ, ASB, BNZ, Rabobank and Westpac) and supported by the Ministry for Primary Industries, the aim of SAFI is to develop a taxonomy or definition for sustainable agriculture for use by the finance sector in considering agriculture lending and investment. This is so that the banks have a shared and consistent understanding of what good sustainable practices are in New Zealand in a way that also aligns with international frameworks where appropriate. The banks can then build their products and policies off the same base level understanding, i.e. what Bank A recognises as sustainable environmental resource management is the same as what Bank B considers sustainable environmental resource management.

Ernst & Young is developing a voluntary sustainable agriculture standards framework (the standards) for SAFI and will be providing guidance for its use by the banks. The standards are guided by leading international frameworks, namely the EU Taxonomy and the Climate Bonds Standard, to ensure alignment with international frameworks, but they will also align with leading farming and growing practices in Aotearoa New Zealand, with input from a range of technical and industry specialists. The sustainable agriculture standards are scheduled to be finalised during the first quarter of 2021.

What are these taxonomies used for?

These classification systems can be part of criteria for issuing green financial products and instruments. In the case of Green Bonds for instance, several labels require the "greenness" to be assessed on the basis of a taxonomy for the use of proceeds, i.e. the funds raised need to be used to finance only or mainly activities which are eligible in the classification system. In China, relevant taxonomies are already applied for specific purposes (e.g. green bonds), and are being updated to match the latest national classification of green industries.

Use of the taxonomy(ies) is mandatory for financing purposes in **China** (e.g. issuance of green bonds, supply of green credit, and statistics). In India, the use of the taxonomy is voluntary but becomes mandatory for disclosing the proceeds of green bonds issued as per the guidelines of the securities regulator, if the issuer chooses to use them.

In the **EU**, larger investee-companies will have a duty to disclose the degree of alignment of their economic activities with the taxonomy to facilitate and complement disclosures by financial institutions undertaking the relevant investments. Further, the EU is considering linking a possible future green bond standard to the taxonomy.

In some jurisdictions, the associated financial products may conceivably also benefit from incentive schemes (which can be in the form of subsidies, tax or interest rebates, or prudential incentives) designed to encourage issuers and investors to align their activities with the taxonomies. However, at this stage, no jurisdiction currently refers to specific administrative, fiscal or other incentives to encourage take-up of the taxonomy. All rely on the market to mobilise green finance, and note a

generally high level of acceptance of existing market-led standards, as well as enthusiasm among private financial actors for the work to codify these into official taxonomies.

Supervisors can also make use of taxonomies for oversight and monitoring. For example in China, the PBOC issued the *Notice on Carrying out Green Credit Performance Assessment of Banking Depository Financial Institutions* in July 2020, which foresees a quarterly assessment to track the green performance of financial institutions based on the taxonomy. In terms of scope, the assessment covers key green financial products, such as green loans, green securities and green equity investments. In terms of methodology, the assessment uses both quantitative (80%) and qualitative (20%) indicators. Quantitative indicators include the share of green finance assets to total assets and the year-on-year growth rate of green finance assets. Qualitative indicators are evaluated by regulatory authorities, which include the implementation of national and regional green financial policies, the implementation of the green finance strategies of financial institutions, and how financial institutions provide financial support for green industries.

What are the objectives covered by these taxonomies and how are they developed?

The objectives when developing a taxonomy are common in all jurisdictions: the overarching purpose is to encourage financial flows towards activities that can help reduce emissions and mitigate environmental damage, to improve transparency towards investors, as well as to facilitate supervision of financial institutions' green practices. Common specified environmental policy goals include climate change mitigation through energy savings and reducing emissions, pollution prevention, resource conservation and recycling (circular economy), ecological protection and climate change adaptation. The ambition levels are broadly pitched to be in line with their jurisdictions' overall climate policy e.g. in terms of contributing to reaching climate neutrality by 2050 or helping specific high-emitting sectors transition away from carbon.

Across the jurisdictions, taxonomies (are set to) focus on activities within a range of economic sectors, the performance of which is considered to contribute to these environmental objectives.

The **EU** taxonomy requires operators to meet specified technical screening criteria in terms of, for example, environmental performance levels, emissions reductions or process-based requirements. These are designed to ensure that activities make a substantial contribution to a defined environmental objective. In the EU, the details of the taxonomy will also be developed in two steps: first by end-2020 for the objectives of climate change mitigation and climate change adaptation, second by end-2021 for the remaining objectives of water preservation, pollution prevention, circular economy and biodiversity. In the EU, activities in relation to solid fossil fuels are excluded from eligibility under the taxonomy, whereas this is not necessarily the case in the others.

When it comes to economic activities, in **China's** green finance taxonomy, namely the Green Bond Endorsed Project Catalogue, each item is linked to industry-specific green standards and criteria. This means that the corresponding economic activities have to meet the technical criteria, energy efficiency indicators or environmental emission limits that have been set by competent regulatory authorities.

In **India**, the taxonomy consists of eight eligible sectors at a broad level but does not require them to fulfil specified performance levels. Issuers have to provide disclosures at the time of issuance and on a continuous basis to demonstrate use of the guidelines in funding eligible projects. They also have to disclose qualitative performance indicators and, where feasible, quantitative performance measures of the environmental impact of the project(s) and/or asset(s).

The taxonomies in all cases are set to be reviewed and updated periodically, based on evolutions in science, technology and environmental policy⁵⁰. In all cases, dedicated expert groups with both public and private sector representatives are involved in the development and review of taxonomies.

In its report on “Developing Sustainable Finance Definitions and Taxonomies”⁵¹, the OECD notes that, in line with the approach of the EU taxonomy, the design of sustainable finance taxonomies will benefit from the incorporation of the notion of a systems approach. The EU taxonomy recognises that an economic activity cannot be considered truly sustainable independent of the wider system in which it operates. An equally important design consideration is the need to reflect multiple pathways. There are many potential emissions pathways to a given environmental objective, and different jurisdictions will have different long-term climate policy objectives and will follow different pathways. How pathways are translated to the level of a corporate issuer is also a topic for careful consideration. Taxonomies should also be adaptable to evolving knowledge and technologies, as well as to adjustments of transition pathways in view of results achieved over time. According to the OECD, the EU taxonomy is unique in the level of detail in taxonomy compliance requirements that it achieves. Besides requiring activities to make a substantial contribution to a given environmental objectives, the OECD finds that the EU taxonomy is the only framework that interlinks its six environmental objectives together through the multi-dimensional “Do No Significant Harm” (DNSH) requirement. This combined set of criteria ensures that operators whose economic activities make a substantial contribution to an environmental objective do no significant harm to any of the other environmental objectives. In addition, performance of an activity has to comply with minimum social safeguards. Keeping in mind these essential differences, the OECD identified a commonality of approach among the various taxonomies adopted so far for renewable energy and green buildings, where metrics and thresholds among the scoped definitions are similar. By contrast, in other sectors such as non-renewable power generation and transport, the OECD finds that sectoral coverage is similar across jurisdictions, but criteria for inclusion differ. Only the EU taxonomy includes certain hard-to-abate manufacturing sectors such as cement, steel, aluminium, chemicals and hydrogen. Finally, some gaps in terms of sectors not covered can be identified in all frameworks, including the aviation and health sectors, which have been recently put under the spotlight following the economic consequences of the Covid-19 pandemic.

In the **EU**, **India** and **China**, the taxonomies are binary (green/not green). **Canada’s** private sector is leading the development of a voluntary, transition finance taxonomy, which is still currently under development. The EU taxonomy also covers a category of “transitional” activities, including sectors which are not low carbon today but where targets for performance improvements are designed to help them transition to lower emissions.



⁵⁰ In the EU, the review extends to examining whether a taxonomy should include categories for activities which have a negative impact on the environment (‘brown’ or ‘red’ taxonomy) and for activities considered to make a valuable social contribution.

⁵¹ OECD (2020), [Developing Sustainable Finance Definitions and Taxonomies](#), Green Finance and Investment, OECD Publishing, Paris.

Overview of taxonomies in IPSF members

Key Characteristics	China	European Union	India
Mandatory vs voluntary	Mandatory (for specific purpose: issuance of green bonds)	Mandatory (for large undertaking & financial market participants: disclosure requirements; For MS & the EU: when setting out measures for green financial products)	Mandatory (for listing of green bonds on recognized stock exchanges)
Scope of application [undertakings concerned, circumstances]	Green financial products, e.g. green bonds and green loans	Financial products; large undertakings	Green Bonds
Objectives/goals pursued [climate change mitigation, climate change adaptation, environmental, etc.]	Environment improvement, climate change mitigation, more efficient resource utilization,	6 environmental objectives: 1. Climate change mitigation 2. Climate change adaptation 3. Sustain. use & protection of water 4. Circular Economy 5. Pollution prevention and control 6. Protection of healthy ecosystems To qualify, activities have to make a substantial contribution to one objective, and do no significant harm to the others, while complying with social safeguards.	Environmental sustainability, climate change
Level of details [activities, corporates, financial assets]	Activities and projects within select sectors	Activities within select sectors <u>7 sectors</u> : Agriculture & forestry, manufacturing, electricity, gas, steam, air conditioning, water, transport, ICT & buildings	Projects funded by green bonds
Different shades of green and/or brown activities	Binary	Binary (Solid fossil fuels are excluded)	Binary
Incentives	No	No	No

The role of development banks: the EIB and the EBRD intend to align investments with the EU Taxonomy in the near future

Alignment with the EU Taxonomy is anticipated in the **EIB's upcoming Climate Bank Roadmap 2021-2025**.⁵² While a climate finance tracking system is already in place, by January 2021, the EIB intends to establish an integrated tracking system both for climate action and environmental sustainability. For this purpose, the EIB will revise its existing climate action definitions, and adopt environmental sustainability definitions, on the basis of the EU Taxonomy. In parallel, the EIB is adjusting its sustainability funding products to align with the EU Taxonomy.

In July 2020, the **EBRD** adopted a new **Green Economy Transition (GET)** approach, which includes a reference to the EU Taxonomy for external disclosure and reporting. The EBRD is revising its internal tracking systems for green finance around the six environmental objectives defined by the EU Taxonomy.

The EIB and the EBRD are active members of the group of multilateral development banks (MDBs) and International Development Finance Club (IDFC) that have developed Common Principles for tracking climate finance (MDB-IDFC 'Common Principles'). With their unique experience with the EU Green Taxonomy and the MDB-IDFC harmonised climate finance approach, the EIB and the EBRD will have an important role to play in ensuring compatibility and leveraging synergies between the two approaches in the coming years.

Testing the EU Taxonomy with investors – insights from the PRI Taxonomy Practitioners Group

Convened by the Principles for Responsible Investment, over 35 investors have implemented Europe's taxonomy in anticipation of incoming European regulation⁵³. The investors assessed taxonomy alignment before many details of the final regulation are in place, based on the recommendations of the final report and technical annex of the Technical Expert Group on Sustainable Finance, and before widespread corporate reporting against the taxonomy is available.

This first comprehensive set of case studies covers most major asset classes, geographies (including global funds) and investment styles. They demonstrate that the taxonomy framework can be operationalised and offer important insights for investors beginning their taxonomy preparation.

The report also summarises recommendations from the group to policymakers and supervisors who will oversee the implementation and development of the taxonomy. The PRI recommends EU policymakers:

- Develop disclosure frameworks to make sure that investors have the right data, at the right granularity, for the right issuers to undertake taxonomy analysis.
- Provide more guidance and clarity about supervisory expectations for taxonomy disclosures.
- Continue with ongoing development of the taxonomy and work to harmonise it with international efforts.

The PRI hopes that by circulating these findings, the PRI report of 9 September 2020 will foster confidence and facilitate implementation of the European taxonomy.

⁵² In November 2019, the EIB Board of Directors agreed to increase the share of EIB finance dedicated to climate action and environmental sustainability to 50% by 2025 and ensure the EIB Group will support over €1 trillion of investments in climate action and environmental sustainability over the critical decade ahead (2021-2030), in support of the European Union's Green Deal. The new commitment will also ensure that EIB financing activity, regardless of the policy objectives, is aligned with the goals of the Paris Agreement by the end of 2020.

⁵³ ["Testing the taxonomy: insights from the PRI taxonomy practitioners group" 9 September 2020](#)

The next steps: working group on taxonomies

The stocktaking exercise among IPSF members has confirmed the potential of taxonomies to help direct financial flows towards activities that truly contribute to environmental objectives. At the same time, these taxonomies, if developed in isolation, might lead to more fragmentation of practices and rules and could inhibit the growth of global sustainable finance markets.

In this context, the IPSF has decided to create a dedicated working group on taxonomies, co-chaired by **China** and the **EU**. The WG objectives are to comprehensively compare existing taxonomies for environmentally sustainable investments developed by public authorities of member countries, identify commonalities and differences in their respective approaches, criteria and outcomes.

This working group will develop and publish, by mid-2021, a **Common Ground Taxonomy** that will display the commonalities between the taxonomies already existing within the IPSF membership. This Common Ground Taxonomy will provide transparency to all investors and companies by constituting a unique common reference point for the definition of investments that are considered as environmentally sustainable across relevant IPSF jurisdictions. It will contribute to reducing transactions costs and, ultimately, to facilitating cross-border green capital flows.

This work will provide an important basis for developing a common classification tool for the global green and sustainable finance market and will significantly contribute to scale up green finance globally and to achieve the Paris Agreement. It will facilitate further work of policy makers in respective jurisdictions on the potential ways to narrow the differences in the future, and to inform other international partners including international standard setters for their work on sustainable finance tools and standards.

b. Standards and labels for sustainable financial products and instruments

What are standards and label for green and sustainable financial products and why are they important?

Standards and labels are generally described as specifications and criteria regarding the process and/or the use of proceeds that need to be met to issue green financial instruments or to mark financial products as green (equity, loans, bonds and funds).⁵⁴ In particular, they often define the process for project evaluation and selection, management and use of proceeds, and reporting in order to meet high sustainability standards. They usually aim to ensure that there is sufficient transparency with regard to the respective products and limit the risk of greenwashing (i.e. preventing the use of marketing to promote the perception that products are environmentally sustainable when they are not in fact). Several types of stakeholders benefit from this enhanced clarity.

For investors, standards and labels contribute to protect the integrity and credibility of the market for sustainable financial products. Trust is essential for scaling up the green market. Even though green financial instruments (bonds, loans, equity, etc.) account for an increasing share of the market globally, they still represent a limited proportion of global market issuances.

They help to create a coherent investment universe for green financial instruments, which allows investors to easily identify and structure their investment policies and make informed investment decisions. They reduce transaction costs for investors by relieving them from checking and comparing information to ensure that financial instruments are truly green.

For retail investors in particular, labelling schemes allow them to realise their investment preferences on sustainable activities. Retail investors are showing a growing interest in sustainable

⁵⁴ To avoid differences in the understanding of both terms (standards and labels), they are used indistinctly in the section below.

investments and have increasing expectations for their investments to take into account climate and environmental considerations. However, they often lack sufficient knowledge to determine the greenness of projects and activities themselves. Standards and labels provide them with sufficient certainty on the sustainability of their investment choice.

For corporates and other issuers, standards and labels can help foster fair competition by setting a level playing field and thus enable easier access for investors. In addition, they provide issuers with a common understanding and clear rules regarding the underlying investments and therefore support a level playing field for higher environmental standards. They limit the risk of dilution by certain issuers that would be tempted to lower their ambitions to attract and mislead investors.

All together, standards and labels have a positive impact for both issuers and investors and are beneficial to channel financial flows toward sustainable activities.

How are standards and labels being developed in the IPSF membership?

IPSF members have adopted **two different types of approaches** with regard to standards and labels for sustainable finance. A first category of jurisdictions (7 out of 11 surveyed) is developing or already has regulation(s) or guidelines in terms of standard and labels in place to cover one or several types of financial assets (**Argentina, China, the EU, India, Morocco, New Zealand, Norway**). The second category covers countries where a market-driven approach is preferred at this stage (**Canada, Chile, Singapore and Switzerland**).

Within the first category, members rely on a large spectrum of tools, from soft law to regulations, and ranging from a few specific types of assets to a comprehensive approach with incentives. Amongst the most comprehensive framework, **China** has established regulatory labels for green bonds, green credit, green funds and green insurance, connecting these tools to taxonomies developed to this end. In the **EU**, the Commission is now considering the possibility of an EU Green Bond Standard, based on the recommendations from an expert group convened by the Commission. According to the expert group, this standard should build on the EU Taxonomy. In addition, beyond a EU green bond standard, the EU is considering the creation of a broader regulatory framework for labels. Standards and labels can also provide clarity to retail investors directly, which is the purpose of the European Ecolabel for retail financial products that is being developed in the EU or is already in place such as the Nordic Swan Ecolabel for green investment funds in Denmark, Finland, Iceland, **Norway**, and Sweden. Finally, in two jurisdictions (**Argentina** and **India**), the market authority⁵⁵ has issued guidelines (soft law) to set good practices for the issuance of green, social and/or sustainable bonds. These guidelines mainly refer to international private led taxonomies, such as CBI, and/or a high-level list of projects or assets. In India, the Guidelines should apply when listing Green Bonds. In **Morocco**, the market authority⁵⁶ has also included in 2019 mandatory provisions in the prospectus for green bond or similar instrument in its rulebook. Further, the Reserve Bank of **India** requires banks to allocate 40% of lending to key socially important sectors such as agriculture, small and medium-sized enterprises, social infrastructure and small renewable energy projects under the Priority Sector Lending (PSL). Looking forward, in **New Zealand**, the Financial Markets Authority will issue principles-based guidance for issuers of financial products that claim to incorporate non-financial aspects (such as being sustainable or green), rather than imposing prescriptive standards or labels.⁵⁷

Among the second category, even though private initiatives drive the standards and labels landscape, it should be noted that the market heavily relies on some key international standards and

⁵⁵ Comisión Nacional de Valores –CNV and Securities and Exchange Board of India .

⁵⁶ Autorité Marocaine du Marché des Capitaux -AMMC.

⁵⁷ The guidance describes how issuers can comply with the ‘fair dealing’ requirements in Part 2 of the FMC Act. Issuers can choose how to disclose / label their products and they can use any external certification agency if they wish – provided they comply with the fair dealing principles.

labels (in particular ICMA Green, Social and Sustainability Bond Principles, Green and Sustainability Linked Loan Principles and Climate Bonds Initiative). In addition, some securities exchanges are playing an important role by issuing guidelines or recommendations.⁵⁸ This approach contributes to structure green markets and prevent fragmentation of practices.

Verifiers and/or second/third party opinion providers are also considered as critical because their review of the green credentials of the use of proceeds, improve the overall transparency and provide assurance. This is reflected in most regulatory frameworks ([EU](#), [China](#), [Argentina](#)), but also in some market driven ones (such as in [Chile](#) or [Canada](#)). Most regulatory and market driven approaches also make reference to the reporting framework for these tools (reporting of use of proceeds -allocation report- and on environmental impact -impact report).

Are there incentives attached to these standards and labels?

Only a very limited number of jurisdictions provides incentives to issuers or investors in environmentally sustainable financial products. In [China](#), the central bank provides direct incentive to eligible green loans and bonds by making them eligible as collateral in the central bank's monetary policy. [Singapore](#) provides direct incentives through its Sustainable Bond Grant Scheme to cover the costs of external sustainability review, assessment and verification services (up to SGD100,000 for a minimum bond issuance of \$200 million) to issuers of green financial products. Overall, the discussion around incentives (financial, regulatory, prudential, etc.) has gained increasing political attention in the last months.

What sustainable objectives do the different standards and labels cover?

With the emergence of sustainability-linked bonds and loans or, in the context of recovery, social bonds for instance, the broader landscape of standards and labels is developing quickly beyond green bonds and loans (see also section 2.a.). [Singapore](#) is for instance developing a grant scheme to support green and sustainability-linked loans which will complement its existing bond grant scheme that covers green, social and sustainability bonds.

Green loans, social bonds and sustainability linked bonds and loans will be very important given the greater need for transition financing and the inability of smaller companies to meet market expectations for minimum issuance sizes for green bonds. In the same time, the absence of agreed labels or standards might give rise to inconsistent practices and a lack of transparency of the issuers in some cases. For this reason, it is possible that the future standards and labels developed in IPSF jurisdictions also cover these new instruments to finance the transition.

The next steps: IPSF active monitoring of market and policy developments

The IPSF will keep monitoring market development regarding standards and labels for green bond and the broader spectrum of instruments and follow the adoption of new standards and labels by member jurisdictions and outside the membership of the IPSF. The IPSF could envisage the creation of a dedicated working group in the near future.

⁵⁸ Green and Social Bond Segment Guide issued by the Santiago Stock Exchange, green bond flag on SIX Swiss Exchange, Guidelines from the BYMA in Argentina -Bolsas y Mercados Argentinos SA.

Overview of standards and labels for sustainable financial products in IPSF members

Key Characteristics	Argentina	China	India	Morocco	Norway	EU, NZ	Others
Scope	Guidelines for green/social & sustainable bonds from CNV	Green bonds/credit/fund/insurance	Guidelines for Green Bond from the Securities and Exchange Board of India	Guidelines for green/social & sustainable bonds from AMMC Provisions on these instruments embedded in the prospectus regulation	Nordic ecolabel 'Swan' for green investment funds	<p>Frameworks under development :</p> <p>NZ's Financial Markets Authority is considering guidance on green bonds and other responsible investment products</p> <p>The EU is exploring an EU Green Bond Standard, possibly through a legislative proposal</p> <p>The EU is developing an Ecolabel for financial products for retail investors</p>	<p>Market driven But heavily relying on international standards and labels (ICMA Green bond principles or Climate Bonds Initiative). One jurisdiction (Singapore) has developed a Sustainable Bond Grant scheme to cover the cost of issuances.</p>
Mandatory vs voluntary	Voluntary	Mandatory if the instrument is labelled as green	Mandatory for listing GB	Mandatory if the instrument is labelled as green, Social or sustainable	Voluntary		
Third party verification	Recommended	Yes (encouraged), with self disciplinary management	Not mandatory	Required	On site inspection from the Nordic Ecolabelling		
Reporting	Recommended (allocation & impact)	Yes (allocation report on a regular basis)	Yes (eligibility & details on projects/assets)	Required (allocation & impact)	Reporting on the fund's holdings & sustainability work		
Link to Taxonomy or other green grid	Flexible link to other taxonomies and exclusions	Yes	Yes	No (but transparency on the inclusion and exclusion)	No (but transparency on the inclusion and exclusion)		
Incentives	No	Yes (monetary)	No	No	No		

c. Climate and environmental disclosure by companies

For the purpose of this section, climate and environmental disclosure (hereafter referred as to ‘environmental-related disclosure’) refers to the periodical reporting by businesses, irrespective of their legal form (hereafter referred to as ‘companies’), of information about their exposure to climate and environmental risks and/or of the companies’ impact on the environment.



Why does environmental-related disclosure matter and to whom?

To achieve the transition to a low-carbon and climate-resilient economy, in line with our international commitments, the role of companies is paramount. Good quality, complete and comparable environmental-related disclosure will help investors to invest in companies and activities that address and do not exacerbate the environmental problems we face. It will also enable investors to take better account of financial risks created by sustainability factors, thus reducing the threat of financial instability arising from climate change and environmental factors.

Companies themselves need to better understand and address the risks of a negative impact on the environment, including climate, resulting from their business activities, as well as the risks that climate and environmental issues pose to their business. Sustainability disclosure can help them to respond appropriately to these challenges. For companies, greater transparency on – and understanding of – climate and environmental risks and opportunities can help them become more resilient and improve non-financial and financial performance.

As such, environmental-related disclosure provides a crucial contribution to the re-orientation of financial flows toward sustainable activities as well as to the promotion of an effective transition to a low carbon, resilient and environmentally sustainable economy in alignment with international goals.

What is the state of play of the environmental-related disclosure in the IPSF membership?

The majority of IPSF members have already set mandatory environmental-related disclosure requirements. These requirements apply to various types of companies. A group of jurisdictions (**Argentina, China, EU, India, and Singapore**) addresses disclosure obligations to listed companies, with some specificities. In the EU, for instance, large public-interest entities with more than 500 employees are required to disclose under the rules of the Non-Financial Reporting Directive (NFRD). In India, disclosure rules apply to the top 1000 companies based on market capitalization⁵⁹. In China companies subject to mandatory disclosures are defined as listed companies that heavily discharge key pollutants with other listed companies falling under a “comply or explain” regime. In Argentina, the Securities and Exchange Board (CNV) only requires listed (non-financial companies) to disclose

⁵⁹ No. SEBI/LAD-NRO/GN/2019/45

sustainability information. In Singapore, the Singapore Stock Exchange requires all listed companies to disclose five components of their non-financial information on a comply or explain basis⁶⁰.

Morocco issued disclosure rules for issuers of securities⁶¹. In **Chile**, the financial market authority has issued rules for issuers of securities to disclose sustainability-related information⁶² and for all listed corporations to disclose information on their corporate governance practices on a “comply or explain” basis.⁶³ In Canada, provincial securities legislation requires reporting issuers to disclose the material risks affecting their business and, where practicable, the financial impacts of such risks in certain prescribed continuous disclosure documents (e.g. Annual Information Form), including climate-related risks, if applicable .

Switzerland and **New Zealand** have not yet set mandatory disclosure obligations. **Swiss** financial and non-financial companies can voluntarily disclose sustainability-related information based on the Six-exchange regulation (soft law). In practice, Swiss companies have widely adopted GRI reporting and TCFD recommendations. In **New Zealand**, the Stock Exchange, which is privately owned, issued rules for listed companies regarding the disclosure of non-financial information on a “comply or explain” basis. It is worth noting that the Swiss Government is assessing the need to set mandatory disclosure obligations for companies, while in New Zealand the Government has recently announced that it will introduce a mandatory climate-related financial disclosure in line with TCFD recommendations.

International reporting standards and frameworks are also widely adopted in IPSF jurisdictions with mandatory disclosure rules. In **Chile** and **India**, companies generally disclose against the Global Reporting Initiative (GRI) standards or the framework of the International Integrated Reporting Council (IIRC)⁶⁴⁻⁶⁵. In **Singapore** and **Morocco**, the competent authority either recommends or requires companies to adopt recognized international standards and frameworks including, where appropriate, the TCFD recommendations, GRI, Climate Disclosure Standards Board (CDSB) or Sustainability Accounting Standards Board (SASB). In the **EU**, companies falling under the scope of the NFRD should state which recognised standards or frameworks they have used when this is the case. The European Commission’s guidelines on climate reporting that supports the NFRD incorporate the TCFD recommendations. In **Norway**, there is an expectation for large companies to adhere to international standards such as the TCFD recommendations. In **Canada**, the federal Government encourages the adoption of the TCFD disclosure standards by federal Crown corporations where appropriate and relevant to their business activities.

International reporting standards and frameworks help ensure cross-border consistency and contribute to global convergence. They serve different purposes. The Sustainability Accounting Standards Board (SASB) standards, for instance, are designed to provide investors with information about sustainability factors that have an impact on financial performance. The Global Reporting Initiative (GRI) focuses more on the impact organisations have on the environment and society, and targets a wider variety of stakeholders. The Taskforce on Climate-related Financial Disclosures (TCFD) recommendations are designed to encourage financial institutions and non-financial companies to disclose information on climate-related risks and opportunities. The TCFD recommendations are widely recognised as authoritative guidance on the reporting of financially material climate-related information.

Furthermore, beyond the spectrum of international reporting standards and frameworks, international organisations such as the OECD have issued recommendations to help companies identify, assess and manage sustainability risks and adverse impacts on society and the environment.

⁶⁰ [SGX Rulebook](#)

⁶¹ [AMMC](#)

⁶² [NCG N°386](#)

⁶³ [NCG N°385](#)

⁶⁴ [NCG N°385](#)

⁶⁵ [Securities and Exchange Board of India: Integrated Reporting by Listed Entities](#)

Due Diligence and disclosure of risks to society and the environment under the OECD Guidelines for Multinational Enterprises

The *OECD Guidelines for Multinational Enterprises* (“the Guidelines”) are recommendations to multinational enterprises that provide non-binding principles on responsible business conduct (RBC). The Guidelines are unique in that they are the only multilaterally agreed RBC code to date. All OECD member countries and 13 non-OECD countries (including Argentina and Morocco) adhere to the Guidelines. In the EU, reporting on due diligence policies in line with the OECD recommendations on due diligence is now a mandatory expectation under the [EU Regulation on sustainability-related disclosure in the financial services sector](#). Moreover, the GRI has recently revised its universal reporting standards to integrate expectations of due diligence reporting in line with OECD due diligence recommendations.

The Guidelines offer a supportive framework to help companies deal with the adverse impacts of their activities on society and the environment, including through disclosure. One of the key expectations reflected in the Guidelines is that companies should contribute positively to ESG progress worldwide, with a view to achieving sustainable development (“do good”). Another key expectation is that companies should avoid causing or contributing to adverse impacts and seek to prevent or mitigate adverse impacts linked to their operations, products or services to which they are directly linked by a business relationship (“do no harm”). These expectations capture action to address business responsibilities on ESG issues – including climate change.

The Guidelines set the expectation for companies to address climate and other environmental impacts. In addition to advising companies to provide transparency in their operations, the Guidelines “encourage a second set of disclosure or communication practices in areas where reporting standards are still evolving such as, for example, social, environmental and risk reporting. This is particularly the case with greenhouse gas (GHG) emissions.”

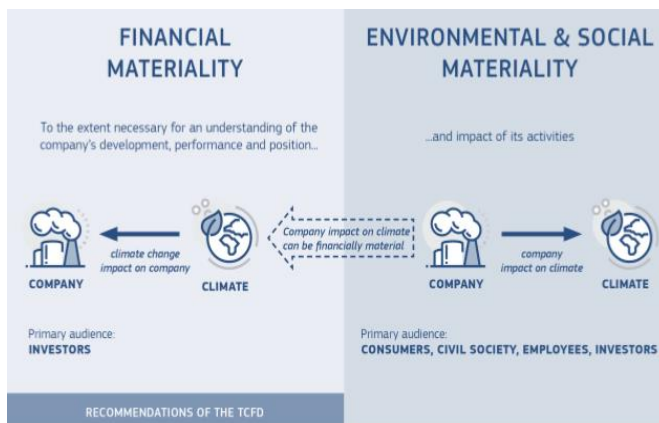
Several practical OECD tools have been developed to help business implement the recommendations of the OECD Guidelines, in co-operation with policy makers, business, trade unions and civil society. There include the *OECD Due Diligence Guidance for Responsible Business Conduct* and the OECD report *Responsible Business Conduct for Institutional Investors*.

As regards content, companies are required to provide disclosure on environmental, social and governance aspects (the E, S, and G). The most comprehensive approaches have been adopted in the [EU](#), [India](#), [Morocco](#), [Norway](#), and [Singapore](#) where disclosure requirements address the three dimensions of sustainability: environmental, social, and governance⁶⁶. In [India](#), disclosure requirements cover social and environmental protection issues related to products and services (incorporation of social concerns, mechanisms to recycle products and waste, respect of resource use etc.) as well as possible action taken by companies to protect and restore the environment. In [China](#), the disclosure obligations relate to environmental impacts caused by dischargers of key pollutants. Their key performance indicators focus on, *inter alia*, construction and operation, environmental impact assessment of projects and administrative permits with respect to environmental protection, contingency plans for unexpected environmental incidents, as well as self-monitoring plans for environmental information. In contrast, in [Chile](#), issuers of securities are required to report on social-related issues such as diversity and gender salary gap.⁶⁷ Under a separate regime, listed companies in Chile should report, as part of their corporate governance disclosure, on how the board of directors incorporates into the risk management and control process economic, social and environmental risks faced by the entity. Finally, it is also worth noting that many IPSF jurisdictions are currently revising their rules and guidelines to further strengthen sustainability-related disclosure obligations. This is the case, for instance, in the EU with the ongoing NFRD revision but also in Chile, China and Singapore.

⁶⁶ As an example, in the EU, the NFRD requires disclosure on environmental protection issues, social responsibility and treatment of employees, respect for human rights, anti-corruption and bribery, as well as diversity on company boards (in terms of age, gender, educational and professional background).

⁶⁷ There is an ongoing proposal to amend this regulation and require a comprehensive disclosure on environmental, social and governance information

The materiality lens of information is also a key element of the approach to disclosure obligations. Within the IPSF membership, sustainability disclosure rules in the EU, China, Morocco, Norway and Singapore have a double materiality perspective. The NFRD approach, in the EU, is a typical example of double materiality approach, which implies that companies have to disclose not only on how sustainability issues may affect the company (financial materiality) but also on how the company's activities affect the environment (environmental materiality). The TCFD recommendations are an example of single materiality, focused on the financial implications of climate change (i.e. how companies' financial performance is affected by sustainability risks and opportunities).



Conclusion and next steps: the working group on disclosure

Overall, in recent years, environmental-related disclosure has improved considerably and a majority of IPSF members has already set mandatory regulatory requirements in this area. Nonetheless, there are still significant gaps notably in the quality and comparability of environmental-related information disclosed by companies to meet the needs of investors and other stakeholders.

In this light, most IPSF members with regulatory environmental-related disclosure regimes are revising their rules while jurisdictions with voluntary-based disclosure are considering a shift to hard law. To foster coordination and coherence between these initiatives, the IPSF will launch a working group on corporate environmental-related disclosures. This working group will facilitate the exchange of views and information on national and international policy and regulatory developments regarding environmental-related reporting, with the aim of supporting the further alignment of disclosure requirements across IPSF member jurisdictions.

Greater international alignment on environmental-related disclosure would increase global transparency, reduces the due-diligence costs for global investors, and the administrative costs of multinational companies.

Overview of environmental-related disclosure approaches in IPSF members

Key Characteristics	Argentina	Canada	Chile	China	European Union	India
Mandatory vs voluntary	Mandatory (corporates) and voluntary (banks)	Mandatory for material risks	Mandatory (issuers of securities) and “comply or explain” (listed corporations)	Mandatory	Mandatory	Mandatory
Undertakings affected	Public listed companies	Reporting issuers	Listed corporations	Listed companies and Key Pollutant Discharging Enterprises	Large publi-interest entities with +500 employees)	Top 1000 companies based on market capitalization (incl. banks)
Reporting against International standards & frameworks	GRI (banks on a voluntary basis)	Voluntary use of recognized reporting standards and frameworks (e.g. TCFD)	ISO 26000:2010, GRI or IIRC	NA	Voluntary use	Voluntary use by top 500 listed entities by market capitalization of IIRC
Location of disclosures	Annual report or other public report (eg. Corporate governance report)	Annual Information Form; Management Discussion & Analysis	Annual report or special report (eg. Corporate governance practices)	Annual and semi annual report	Annual report or separate report	Annual report
Information assured	NA	NA	NA	Third party verifiers	NA (ie. Statutory auditor or audit firm only checks existence of information)	Optional third party verification
Materiality lens (financial and/or environmental materiality)	Financial materiality	Financial materiality	Environmental materiality	Double materiality	Double materiality	Environmental and social materiality

Key Characteristics	Morocco	New Zealand	Norway	Singapore	Switzerland
Mandatory vs voluntary	Mandatory (for companies issuing securities on the market)	Voluntary	Mandatory	Mandatory	Voluntary
Undertakings affected	issuers of securities on the market (both financial and non-financial issuers)	Listed companies	Large companies	Listed companies	Voluntary for Financial and non-financial companies
Reporting against International standards and frameworks	Required use of an internationally recognized standard	Recommended use of GRI and IIRC	Voluntary use (e.g. TCFD)	Voluntary use (e.g. GRI, IIRC, SASB, TCFD, CDSB)	Voluntary use of SIX Exchange Regulation (eg. GRI and TCFD)
Location of disclosures	Annual report	Annual report	Annual report or other public document	Annual report or special report (sustainability report)	Sustainability report in accordance with International Standard
Information assured	Voluntary external assurance by independent professional bodies	NA	NA	Voluntary external assurance by independent professional bodies	NA
Materiality lens (financial and/or environmental materiality)	Double materiality	Double materiality	Double materiality	Double materiality	Financial materiality

Conclusion

This 2020 Annual Report of the International Platform on Sustainable Finance (IPSF) outlines the crucial role of sustainable finance in the context of the impact of the COVID-19 pandemic. This report also provides an overview of the work done by the IPSF during the last year and presents a stocktake of global trends and policy work to help mobilise sustainable finance to meet our environmental challenges.

The report confirms that progress is being made, yet much more still needs to be done. Growth in the membership of the IPSF is an encouraging sign that an increasing number of jurisdictions recognise the vital role finance can and should play in helping to tackle global problems. The COVID-19 crisis has underlined the critical need for yet further coordinated action to finance a more sustainable and resilient economy.

Sustainable finance markets have grown massively in volume and in diversity during the last years, but their growth is still far from sufficient to achieve our targets. The policy tools on which the IPSF work focuses have the capacity to be very efficient to further scale up sustainable finance:

- The development of green taxonomies within the IPSF membership is nascent, but uptake potential is promising;
- More and more jurisdictions are developing standards and labels for sustainable financial products;
- In recent years, sustainability-related disclosure has improved considerably and a large majority of IPSF members have already set mandatory regulatory requirements in this area, while others are considering a shift to hard law.

These tools will help improve transparency and efficiency in sustainable finance markets. The analysis of this report constitutes the basis for further in-depth work within the IPSF to facilitate comparability and convergence in approaches, in particular the creation of two working groups on taxonomies and disclosure and possibly, in the future on standards and labels. **This continuing effort will ensure that our jurisdictions continue to develop regulatory tools to better harness the resources of the financial system in our transition to a sustainable future.**



Annex I: Joint Statement

Joint Statement on the International Platform on Sustainable Finance (IPSF)

Considering the urgent need to scale up environmentally sustainable investments to successfully deliver on the objectives of the Paris Agreement and the UN 2030 Agenda on sustainable development goals (SDGs);

Underlining the critical role the financial sector needs to play to reorient private investments toward sustainable activities worldwide, as provided by article 2.1 (c) of the Paris Agreement or under Sustainable Development Goal 17, in addition to public funds;

Welcoming private-led and public-led initiatives, in particular the dedicated frameworks many jurisdictions are developing to support environmentally sustainable finance;

Acknowledging that the global nature of financial markets has the great potential to help finance the transition to a green, low-carbon and climate resilient economy by linking financing needs to global sources of funding;

Recognising that coordinating efforts to scale up environmentally sustainable finance and promote globally integrated markets, where desirable, would foster the ability of the financial sector to support this transition;

Paying due regard to previous and ongoing work conducted in other fora (such as G20 Green/Sustainable Finance Study Group, Coalition of Finance Ministers for Climate Action and the Network of Central Banks and Supervisors for Greening the Financial System) and international organisations, in particular those which are observers to this Platform, in order to avoid duplication and maximise synergies;

All members are committed to strengthening international cooperation on environmentally sustainable finance under the International Platform on Sustainable Finance (IPSF).

Acknowledging differences in national and regional contexts, all members share the view that the IPSF acts as a forum for facilitating exchanges and, where appropriate, coordinating efforts on initiatives and approaches to environmentally sustainable finance, in particular in the areas of taxonomies, disclosures, standards and labels.

To this end, all members aim to:

- Exchange and disseminate information to promote best practices in environmentally sustainable finance;
- Compare the different initiatives and identify barriers and opportunities to help scale up environmentally sustainable finance internationally;
- While respecting national and regional contexts, enhance international coordination where appropriate on environmentally sustainable finance issues. Where appropriate, some willing members could strive to align initiatives and approaches.

The IPSF may operate in an informal and inclusive setting such as a Steering Committee, working groups and a secretariat. The IPSF is members-driven and open to those who are taking action and willing to promote international cooperation and, when appropriate, coordination in the area of environmentally sustainable finance.

This Joint Statement does not establish an institutionalised body, nor is it intended to, create any binding, legal or financial obligations on any member under domestic or international law.

Annex to the Joint Statement- IPSF members and observers

<u>Members</u>		<u>Observers</u>
Public Authority	Country	
Ministry of Treasury	Argentina	Coalition of Finance Ministers for Climate Action
Department of Finance	Canada	European Bank for Reconstruction and Development (EBRD)
Ministry of Finance	Chile	European Investment Bank (EIB)
People’s Bank of China	China	International Monetary Fund (IMF)
European Commission	European Union	International Organization of Securities Commissions (IOSCO)
Ministry of Finance	India	Network for Greening the Financial System (NGFS)
Ministry of Finance	Indonesia	Organisation for Economic Co-operation and Development (OECD)
The National Treasury	Kenya	United Nations Environment Programme – Finance Initiative (UNEP FI)
Ministry of Economy and Finance	Morocco	
Ministry of Finance	Norway	
Ministry for the Environment	New Zealand	
Ministry of Finance and Budget	Senegal	
Ministry of Finance and Monetary Authority of Singapore	Singapore	
Federal Department of Finance	Switzerland	

Annex II: IPSF working methods and milestones 2019-2020

This annex presents an overview of the IPSF working methods and of the milestones that led to the publication of this public Annual Report.

The IPSF operates as a member-driven and inclusive platform. The activities of the IPSF in 2019-20 consisted of two phases which centred on the work of the technical working group. The first phase (December 2019 – July 2020) focused on the preparation of an internal stock-take report. This internal report was based on the findings of a stock-take questionnaire launched in December 2019. The internal report covered the main objectives, principles and content of the regulatory initiatives taken thus far by IPSF members in the area of taxonomies, disclosure and standard and labels. The second phase (July-October 2020) concentrated on the preparation of this public Annual Report, based on the results compiled in the first phase. Eleven jurisdictions of the IPSF participated in the stock-take questionnaire: Argentina, Canada, Chile, China, India, Morocco, Norway, New Zealand, Singapore and Switzerland and the EU. This public Annual Report also features the contribution of members that joined the IPSF in 2020. Senegal has provided a contribution in Section 2.b of this report.

They held five meetings at expert's level since October 2019.