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PRESS RELEASE

WHOLESALE MARKETS BANKS AND BCG DEVELOP FIRST GLOBAL PRINCIPLES FOR CLIMATE FINANCE TAXONOMIES – A KEY ENABLER FOR TRANSITION FINANCE SUCCESS

A new set of principles published today by the Global Financial Markets Association (GFMA) and Boston Consulting Group (BCG) provides, for the first time, a global, actionable set of principles that are recommended to be considered by officials and the private sector when developing regional and sector-specific Climate Finance taxonomies. "Global Guiding Principles for Developing Climate Finance Taxonomies – A Key Enabler for Transition Finance" acknowledges that to meet the $3–5 trillion+ per year in global investment needed to decarbonize the global economy, a necessary shift of the Climate Finance Market Structure must focus more on the need for more transition finance, including "green" equity to support low-emissions projects, recognizing that 35% of the funding needed to meet the Paris 2C requirements is required from equity, alongside 44% from loans and 21% in bonds.

There is recognition by G20, G7 and local economies now more than ever that climate finance market structure must grow at an unprecedented scale, speed, and geographic scope to meet the investment needs to transition to a low carbon economy for the benefit of economic growth and the viability of communities around the world. Collectively all market participants must strive towards the development of consistent, comparable, and reliable taxonomies to enable capital markets financing to be mobilized at the scale and pace necessary for an effective transition.

For Asia, this latest paper details the need for collaboration, coordination and interoperability to meet the climate challenge in a region that today accounts for half of the world's carbon emissions, and will be susceptible to both physical and transition risks, and is particularly prone to market fragmentation

Steve Ashley, Nomura Head of Wholesale Division and Chairman of GFMA, said: "The banking and capital markets sector recognises the importance of sound taxonomies that support change and transition. Here we offer five principles to act as a guide to help unlock the potential and encourage investment in climate finance."

All existing and new taxonomies should be assessed against five global principles:

I. Climate Finance taxonomies should be broadened beyond use of proceeds structures (e.g. green bonds) to capture entity-level activities and all eligible sources of capital.
II. Climate Finance taxonomies should be objective in nature, supported by clearly defined metrics and thresholds aligned to the Paris Agreement, and science-based targets.

ASIA SECURITIES INDUSTRY & FINANCIAL MARKETS ASSOCIATION
Unit 3603, Tower 2
Lippo Centre
89 Queensway
Admiralty, Hong Kong
Tel: +852 2531 6500
www.asifma.org

III. Climate Finance taxonomies should have a consistent set of principles and definitions, but provide flexibility for regional and temporal variation to align with differences in transition pathways.
IV. Climate Finance metrics should be defined and applied to sectors using science-based targets, balancing ease of use with transparency and robustness to both assess climate impact and support third-party verification.
V. Climate Finance taxonomies should be based on a governance process that is robust, inclusive, and transparent, and has the flexibility for continued evolution.

Kenneth E. Bentsen, Jr., CEO of GFMA and president and CEO of SIFMA, said: "Debt instruments alone, such as green bonds, cannot meet the $150 trillion required to meet the 2050 goals stipulated by the Paris agreement nor the more recent G7 ministers' commitment to the 30x30 initiative. Equity finance plays a critical role in enabling a corporation's ability to mobilize capital toward transition pathways. To unlock these sources of capital, we need a broader definition of climate finance that captures equity financing and working capital, which is not easily linked to a specific underlying economic activity. However, to avoid greenwashing, it is important to have consensus on global principles, which leads to increased confidence in monitoring how cross-border Climate Finance taxonomies are designed and capital may be invested. In the report we offer solutions to broaden the set of eligible sources of capital in Climate Finance taxonomies, while identifying global guiding principles that support preserving the integrity and accountability in capital markets."

Developing effective Climate Finance taxonomies are contingent on regional and sector-specific science-based transition pathways that clearly outline the technology paths and interim and final targets. Science-based targets (SBT) at the regional and/or sector level, rather than overarching global targets, should be used to inform threshold calibration. This will allow for regional and temporal variation in the application of taxonomies, without compromising global consistency and ease of use by international stakeholders, mitigating the risk of transition activities from being considered climate-aligned and isolating hard-to-abate sectors from investment. The exclusion of transition and enabling activities from scope of Climate Finance taxonomies will only result in a "wait and see" approach in the real economy—and corporates may also defer investment decisions until there is significant advancement in underlying technology for an activity. SBT transition pathways also reinforce the importance of the role of equity eligibility, as equity and other sources of patient capital are often needed to fund longer-term investment in R&D in low-GHG technologies and provide sufficient levels of loss absorbency to support the raising of debt finance.

Roy Choudhury, Managing Director and Partner of BCG said: "The report acknowledges that there is no 'silver bullet' for the creation of a global taxonomy. A successful framework is one that recognizes regional and sector-specificities. With this report, our aim is therefore to build consensus on global guiding principles for developing well founded taxonomies that underpin investor confidence as different jurisdictions (government-sponsored), industry associations, and individual participants create their own bespoke Climate Finance taxonomies to enable financing transition pathways. The five principles are by design high level and not prescriptive to allow for Climate Finance taxonomies to be based on regional or nationally defined contributions, climate targets and policies, and sector-specific transition pathways. The principles are designed to be foundational in the development of Climate Finance taxonomies by identifying key features underpinning each principle are considered."

Allison Parent, Executive Director of GFMA, said: "Globally harmonized, objective, science-based Climate Finance taxonomies are a key step to enabling the unprecedented scale of transition finance needed. Broadening the definition of Climate Finance taxonomies to capture the entity-level activities and all eligible sources of capital is critical to mobilizing equity financing and working capital that is not easily linked to a specific underlying economic activity. We set out these global principles and definitions to help spur global policymakers, standard setters, and market participants to start using a minimum set of global guiding principles and consistent definitions to underpin the development of Climate Finance taxonomies across regions. This will facilitate the cross border flow of financing to hard-to-abate sectors as well as global and diversified entities that operate across multiple countries, sectors, and sub-sectors."

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Background:
The "Global Guiding Principles for Developing Climate Finance Taxonomies – A Key Enabler for Transition Finance" is a follow-up to one of the recommendations in GFMA/BCG report last December, Climate Finance Markets and the Real Economy, Sizing the Global Need and Defining Market Structure to Mobilize Capital. Similarly, the scope of this paper is limited to Climate Finance taxonomies and does not cover broader environmental, social, and governance (ESG) taxonomies. Climate Finance taxonomies help enable financing, providing guidelines for investors and credit institutions on how "climate-aligned" a given corporate is at the entity level, or the alignment of specific activities undertaken by an entity to science-based pathways. Taxonomies should not be used as proxy for physical, transitional, or prudential risk assessment of financial institutions. A taxonomy captures only a snapshot of a corporate's activities; therefore, to comprehensively understand a corporate through the lens of Climate Finance, a taxonomy should be used in conjunction with forward-looking decision-relevant metrics, enabled by mandatory disclosures.

About GFMA
GFMA represents the common interests of the world's leading financial and capital market participants to provide a collective voice on matters that support global capital markets. It also advocates on policies to address risks that have no borders, regional market developments that impact global capital markets, and policies that promote efficient cross-border capital flows to end users. GFMA efficiently connects savers and borrowers, thereby benefiting broader global economic growth. The Association for Financial Markets in Europe (AFME) located in London, Brussels, and Frankfurt; the Asia Securities Industry & Financial Markets Association (ASIFMA) in Hong Kong; and the Securities Industry and Financial Markets Association (SIFMA) in New York and Washington are, respectively, the European, Asian, and North American members of GFMA.

<u>GFMA Press Contacts</u>

AFME
Rebecca Hansford
Head of Media Relations
Rebecca.hansford@afme.eu
+44 (0)20 3828 2693

ASIFMA
Corliss Ruggles
Head of Communications
cruggles@asifma.org
852 9359 6996

SIFMA
Katrina Cavalli
Managing Director, Public Affairs
kcavalli@sifma.org
212.313.1181