21 December 2021

GFMA Response to the International Platform for Sustainable Finance's Consultation on Common Ground Taxonomy

Dear Sirs and Madams,

The global economy must transform to achieve ambitions supporting the Paris Agreement. This will require coordination across sectors and regions, as well as the allocation of considerable investment, estimated at $100–150 trillion by 2050[1] to specific regions and sectors to support this transition. As an increasing number of economies adopt taxonomies to support this internationally, in addition to other critical building blocks (such as the disclosure standards), globally harmonized, objective, and science-based taxonomies have potential to help drive the required scaling of climate finance. While a single and globally applicable taxonomy is ideal, factors including regional and sectoral nuances and different pathways to transition mean a single global taxonomy is unlikely to be viable.

Within this context, the Global Financial Markets Association (**GFMA**)[2] welcomes the International Platform for Sustainable Finance (**IPSF**)'s efforts to identify the commonalities and differences between the Chinese and EU taxonomies, and formation of the IPSF itself as a platform to encourage and facilitate international dialogue and coordination on these issues. The 'Common Ground Taxonomy' (**CGT**) analysis constitutes a first step in identifying the need for interoperability of taxonomies, and how this may be further developed in future. With taxonomies being developed by a growing number of jurisdictions, regulatory and market fragmentation is a real risk. It is important that taxonomies are interoperable to facilitate cross-border sustainable finance and lower compliance costs, as our use case illustrates. GFMA developed together with Boston Consulting Group (**BCG**) principles for taxonomy design, *Global Guiding Principles for Developing Climate Finance Taxonomies: A Key Enabler for Transition Finance*[3] that are intended to address the issue of interoperability. Further, the Bank for International Settlements (**BIS**) paper *No. 118 A Taxonomy of Sustainable Finance Taxonomies*[4] also sets out policy actions to harmonize practices in the design of green taxonomies.

GFMA strongly supports the IPSF's efforts to promote further dialogue amongst participating jurisdictions as they develop sustainable finance taxonomies. We recognize the evolutionary nature of taxonomies and the need to develop principles for their interoperability will require ongoing discussion. We also welcome the commitment of IPSF members at COP26 to "continuous cooperation in the development of globally comparable and interoperable sustainability approaches and tools to identify, verify and align investments with sustainability goals, including definitions and taxonomies, taking due account of local specificities and transition considerations"[5]. We strongly support the actions set out in the G20 Sustainable Finance Roadmap and hope that the IPSF can continue to contribute to these.

Through its CGT analysis, the IPSF has thoughtfully delivered a comparison of two differently conceived

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[1] https://www.gfma.org/policies-resources/gfma-and-bcg-report-on-climate-finance-markets-and-the-real-economy/

[2] The 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. We advocate 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, benefiting broader global economic growth. The Global Financial Markets Association ("GFMA") brings together three of the world's leading financial trade associations to address the increasingly important global regulatory agenda and to promote coordinated advocacy efforts. The Association for Financial Markets in Europe (AFME) 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.

[3] https://gfma.org/wp-content/uploads/2021/06/global-principles-for-climate-taxonomy.pdf

[4] https://www.bis.org/

[5] https://ec.europa.eu/info/sites/default/files/business_economy_euro/accounting_and_taxes/documents/211104-international-platform-sustainable-finance-cop26-statement_en.pdf

taxonomies. It provides a methodology to highlight and determine whether economic activities are in common between two, or potentially more, taxonomies for economies that are fundamentally in different states of transition. It identifies differences and commonalities between the EU and Chinese taxonomies and can serve to draw the attention of regulators to these. It may be useful for other jurisdictions as a comparator when developing taxonomies, although it does not offer design principles that would encourage interoperability and/or mutual recognition of taxonomies. As such, GFMA members consider that the CGT is in itself likely to be of limited practical value for market participants. It does not help product issuers, market intermediaries, and investors to resolve the critical issue of what taxonomy applies to a transaction involving multiple jurisdictions and possibly taxonomies, illustrated by our case study below.

We consider the next phase of the IPSF's analysis should explore developing: (1) an internationally agreed set of principles for the design of taxonomies to encourage the development of objective, science-based, transparent and interoperable taxonomies; and (2) an international framework that facilitates interoperability between such taxonomies. We encourage the IPSF to analyze the outcome of the public consultation in finalizing the initial phase of the CGT analysis and consider proposals for such future work. We commend the IPSF for its work to date and the opportunity for the industry to provide feedback, as we believe scaling of sustainable finance will only occur through international dialogue between the official and private sectors. Moreover, given the ongoing rapid evolution of climate finance and related policy discourse, GFMA offers to continue dialogue with the IPSF and relevant standard setting bodies, such as the Financial Stability Board (**FSB**), on the development of an international framework and criteria for allowing one jurisdiction's taxonomy to be recognized by another, as well as other enabling building blocks for climate finance including a single set of disclosure requirements for better standardization, and associated reporting and accounting standards.

GFMA/BCG Taxonomy Principles

In June 2021, GFMA in cooperation with BCG published its white paper – *Global Guiding Principles for Developing Climate Finance Taxonomies*. The paper examines the principles and considerations needed to develop the globally consistent and comparable taxonomies essential for supporting climate-aligned finance. The paper recommends five key global guiding principles to consider in developing global climate finance taxonomies:

I. Climate finance taxonomies should be broadened beyond use of proceeds 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.
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.

The Principles are designed recognizing that a single global taxonomy was unlikely. Instead, the Principles are intended to form a basis for developing sector-specific and, where necessary, region-specific taxonomies that are consistent, comparable and reliable. They are, by design, high level and not prescriptive for application based on regional or nationally defined contributions, climate targets and policies and sector-specific transition pathways. If authorities are to adopt these Principles, taxonomies would be more comparable and reliable and the authorities of one jurisdiction would be and more likely to be support interoperability. However, we recognize more needs to be done to develop these design principles, as well

as an international framework facilitating practical interoperability.

BIS Paper on A Taxonomy of Sustainable Finance Taxonomies

In October 2021, the BIS published a paper that proposes a set of principles for the design of effective sustainable finance taxonomies, after identifying weaknesses in the classification and comparison of existing taxonomies. This includes the lack of use of relevant and measurable sustainability performance indicators, lack of granularity and lack of verification of achieved sustainability benefits. On this basis, the paper proposes 5 key principles for the design of effective sustainable finance taxonomies to provide clarity to investors and "greatly facilitate" comparability and interoperability across different firms and markets:

I. Alignment with high-level policy objectives and measurable interim targets.
II. Focus on one single objective ("One taxonomy, one objective").
III. Outcome-based, using simple and disclosed key performance indicators (KPIs).
IV. Incorporation of entity-based information whenever possible.
V. Sufficient granularity, covering both high and low sustainability performance.

BIS Principle I states that alignment with high-level policy objectives (such as Net Zero commitments) should be the guiding principle of designing effective sustainable finance taxonomies. If policy objectives extend into the far future, realistic and measurable interim targets should be used that fall within investors' investment horizons and provide clarity on what exactly these targets are and how they can be measured.

BIS Principle II notes that a single taxonomy should correspond to a specific objective rather than tackling multiple ESG objectives at once. For instance, a taxonomy that seeks to cover multiple objectives such as greenhouse gas emission reduction and social inclusion runs the risk of increased greenwashing due to reduced market transparency resulting from complex weighting schemes to aggregate the objectives. Furthermore, several taxonomies are based on the do no significant harm (DNSH) principle. Nevertheless, this is challenging to fulfil in practice as it requires both the definition and measurement of a full set of supporting objectives. Further, some activities are difficult to compare and map across jurisdictions, such as the construction of buildings.

The paper notes that while different objectives may in theory be complementary or mutually reinforcing, mixing objectives reduces clarity and simplicity for investors. It also limits the range of sustainable investments and themed investment strategies that can be built around taxonomy-certified assets.

In Principle III, the BIS calls for simplicity which emphasise the desirability of using only one KPI for a given taxonomy. Some sustainability objectives may, however, be complex and require the combination of several KPIs, which would require the taxonomy to accord these KPIs priorities or weightings.

ASEAN Taxonomy for Sustainable Finance

Version 1 of the Association of South East Asian Nations (ASEAN) Taxonomy[6] provides a multi-tiered approach intended to reflect the varied stages of development and economies of the ten ASEAN Member States. Through principles of equivalence, the taxonomy attempts to address the risk of fragmentation across different jurisdictions and economies, whilst making allowance for national taxonomies amongst ASEAN members.

The ASEAN taxonomy is based on five high-level principles reflecting the different stages of ASEAN economies, financial system, and transition paths:

[6] https://asean.org/asean-sectoral-bodies-release-asean-taxonomy-for-sustainable-finance-vesion-1/

1. To be the overarching guide for all ASEAN Member States.
2. To take into consideration widely used taxonomies and facilitate an orderly transition towards a sustainable ASEAN.
3. To be inclusive and beneficial to all ASEAN Member States.
4. To provide a credible framework, including definitions, and where appropriate, be science-based.
5. To be aligned with the sustainability initiatives taken by the capital market, banking, and insurance sectors.

The ASEAN taxonomy also seeks to achieve interoperability with the EU taxonomy and other taxonomies in the future. It adopts a similar framework to the EU taxonomy under the "Foundation Framework", whereby economic activities must fulfil at least one of four environmental objectives to qualify as "sustainable". The economic activities should also be assessed against the relevant environmental laws instituted by ASEAN Member States as a minimum safeguard to ensure compliance with local environmental regulations.

The classification of activities can take place through the "Foundation Framework" or the "Plus Standard". Under this system, an activity can be classified in one of six ways:

- Green FF: green foundation framework
- Amber FF: amber foundation framework
- Red FF: red foundation framework
- Green PS: green plus standard
- Amber PS: amber plus standard
- Red PS: red plus standard

The "Foundation Framework" does not use metrics and thresholds to determine taxonomy eligibility. Depending on the answers to guiding questions in a decision tree, an activity will fall within one of the three categories:

- Green FF: clearly contributes to or enables climate change mitigation.
- Amber FF: activities contributing to decarbonization where mitigation of other harm to environmental objectives is necessary.
- Red FF: does not contribute to or enable climate change mitigation and/or fails to meet other safeguards.

Industry classification and focus sectors in the "Plus Standard" are selected through the ISIC and provide similar granular technical screening and activity-level thresholds for green activities. Screening criteria and thresholds are being developed to be (1) clearly defined, simple and quantifiable, (2) based on scientific information, where applicable, and (3) will be periodically reviewed to achieve the chosen goal over a defined period. The ASEAN taxonomy recognizes that each activity may have multiple decarbonization pathways, and hence more than one threshold is referenced at a single point in time. This is to cater for different starting points of entities across ASEAN undertaking a particular activity. Although complex, it is intended to aid interoperability between ASEAN markets and other international taxonomies.

As an example, ASEAN outlined three tiers of threshold for a single activity to show how this could work in practice:

- Tier 3 (Entry): less stringent and determined by agreed metrics – this tier is static and will be retired at an established point in time which will be determined in a future version of the taxonomy.
- Tier 2 (Intermediate): more stringent than Tier 3 – this tier is static and will be retired at an established point in time which will be determined in a future version.
- Tier 1 (Advanced): the most ambitious threshold – to be aligned depending on activity and will

decline to zero over time.

While multiple pathways make the taxonomy more complex, an advantage of this system is that it takes into consideration different starting points of emissions generated by different entities for the same activity.

Questions for public consultation

Question 1 - Does the current CGT provide a useful reference to you/your organization

The CGT's identification of some of the commonalities between the European and Chinese taxonomies and the methodology for ascertaining those commonalities is an interesting exercise. The IPSF's CGT analysis is very thoughtful and has met its intended objective. It illustrates the intersection of two very different taxonomies. It may be useful for other jurisdictions as a comparator when developing taxonomies, although it does not offer design principles that would encourage interoperability and/or mutual recognition of taxonomies. Our members also question its immediate practical usability as product issuers, market intermediaries or investors in conducting cross-border transactions involving multiple taxonomies.

Even if the IPSF's CGT analysis says that both the EU and China taxonomies cover an economic activity , it does not guarantee that the related transaction otherwise meets all the requirements of either taxonomy, as it does not address the question of whether other taxonomy principles are met, for example DNSH and minimum social safeguards under the European taxonomy or similar principles under the Chinese taxonomy.

Further, an increasing number of taxonomies are being developed. While the IPSF's CGT analysis provides a methodology for performing a similar exercise to identify the overlap with other taxonomies, it does not answer the key question of whether an economic activity within a transaction would satisfy each taxonomy. Nor does the IPSF's CGT analysis provide a cost-effective way for a transaction participant to perform the same analysis as the IPSF.

Finally, the IPSF's CGT analysis currently does not answer the essential question of whether an economic activity within a transaction satisfies relevant taxonomies, particularly considering the vast possible range of circumstances including a multiplicity of jurisdictions that might be involved. A concern amongst some members is that cross-border sustainable finance is already in progress and cannot wait for the IPSF's CGT analysis in its present form to "map the world".

A use case we have provided at the end of this submission illustrates these issues.

Question 2 - How can the CGT be taken forward to enhance comparability and interoperability of sustainable finance taxonomies globally

The IPSF identifies several ways to take the IPSF's CGT analysis forward:

(1) Analyzing additional sectors.
(2) Analyzing additional environmental objectives and transition considerations.
(3) Analyzing new areas of alignment in existing activities.
(4) Analyzing other eligibility features such as DNSH and minimum safeguards.
(5) Analyzing other jurisdictions.

While additional work to expand the scope of the IPSF's CGT analysis will be helpful in assessing additional features of taxonomies and/or additional jurisdictions, we also suggest that consideration be given to work to directly support greater international interoperability of taxonomies, such as design and framework

principles that enable interoperability. The IPSF could provide valuable input in support of Actions 2-4 of the G20 Sustainable Finance Roadmap including to "develop specific recommendations for enhanced comparability and interoperability".[7]

Of the specific proposals to take forward the IPSF's CGT analysis, there could be benefit in analyzing additional features such as comparing approaches to transitional activities, DNSH and minimum safeguards. However, as noted above, the IPSF's CGT analysis does not answer the question of whether an economic activity within a cross-border transaction satisfies all the taxonomies that might apply. Nor does it answer which taxonomy might apply. These questions are most critical to market participants.

(1)-(3) above expand on the area of commonality but do not solve such essential questions. In the event that the IPSF proceeds with analyzing additional sectors, we agree that it should focus on the areas of highest impact based on emission levels as identified in the International Standard Industrial Classification of All Economic Activities (ISIC) Rev. 4 (pages 65-194), including :

- ISIC A – Agriculture forestry and fishing (EU1:CN4) (page 65);
- ISIC D – Electricity, gas, steam and air conditioning supply (EU4:CN3/5) (page 165);
- ISIC F – Construction (EU7:CN1/5) (page 172);
- ISIC H – Transportation and storage (EU6:CN5) (page 194);

In addition, the following two areas of selectively high priorities:

- ISIC C – Manufacturing (EU3:CN1/3) (page 85); and
- ISIC E – Water supply; sewerage waste management and remediation activities (EU5:CN1/2) (page 167).

Addressing (4) would be useful but would have to be pursued at the same time as (1)-(3) to be meaningful. Even then, this only solves the questions for the EU and Chinese taxonomies and not all the taxonomies that might apply to a cross-border transaction.

Given the increasing number of taxonomies, (5) would have to be pursued at the same time as (1)-(4). Nevertheless, (5) may be the most useful of all if the IPSF intends to pursue these options. Point (5) should be refined to deliver (a) preliminary analysis to define some principles for interoperability across taxonomies, (b) a comprehensive stocktaking of existing taxonomies for financial institutions operating in several jurisdictions and (c) a complete review for the G20 Sustainable Finance Working Group (**SFWG**) of fragmentation in the area of the taxonomies; however, we note given the increasing number of taxonomies being launched, this could prove an intensive effort vis a vis design and interoperability principles.

Point (5) should be analysed in a detailed manner, with for example:

- the high-level policy objectives and measurable interim targets, as defined in BIS principle I (e.g., 1.5°C increase)
- the criteria/thresholds (substantial contribution/DNSH/Minimum Social Safeguards…) per activity or project
- the extent to which the taxonomies include transition

All being said, the number of possible situations is complex and pursuing (1)-(5) simultaneously may not produce enough progress within a reasonable period of time, given the urgency of these issues. The effort involved would also be very great.

We also recognize that it is not possible for the IPSF to develop a set of principles for when a single taxonomy should prevail in instances where multiple taxonomies apply given the nature of a cross-border

[7] https://www.g20.org/wp-content/uploads/2021/10/G20-Sustainable-Finance-Roadmap.pdf Action 3

sustainable finance transaction. Questions of conflicts of law are complex and fact-specific. No one set of *a priori* principles is of sufficient certainty that it is likely to be of much use to a transaction participant in resolving the question.

Though not without its own complexity, it would be more efficient to instead develop principles for the development of interoperable taxonomies and/or their mutual recognition. Once applied, transaction participants would then not have to solve the difficult question of which taxonomy or taxonomies applied out of those that were possibly applicable. Rather, with mutual recognition for example, alignment with one taxonomy would mean alignment with the other. This would allow for flexibility and the development of future taxonomies, which can be integrated into this system without repeated iterations of the IPSF's CGT analysis work to date, and has precedent in other regulations.

We therefore strongly suggest IPSF develop principles for interoperability across taxonomies. As a reference, our members noted the recently created Russian taxonomy, which has alignment with the technical thresholds of the best available technologies as one of its core principles. For example, the Russian taxonomy's energy criteria include science-based technical thresholds for electricity generation, based on the recommendations of the EU Technical Expert Group, i.e., a 100g CO_2/kWh threshold for electricity generation.

Further, our members note the Russian taxonomy's simplified approach to the design of a DNSH principle. For Russian green projects, the DNSH principle means compliance with the requirements of Russian domestic environmental protection regulation. The creation of a simpler means of assessing compliance with a DNSH principles enhances interoperability (as does the principle of pursuing only one objection in a taxonomy which may obviate the need for a DNSH test, as noted above). Other means of enhancing interoperability would be to align on the same target - e.g., climate - and to target the same 1.5°C temperature rise.

Interoperability benefits policymakers and regulators in addition to industry players. To achieve national CO_2 commitments, cross-border sustainable finance flows must be maximized, and taxonomies are a tool to support this. If taxonomies are not interoperable, investors will not have the resources to analyze taxonomies across multiple jurisdictions and this may instead limit their investment/portfolios to a few markets that are capable of analyzing. This will hamper the achievement of the goals regulators and governments are setting.

As a point for consideration, we also recommend that the IPSF compare the different approaches to what constitutes transitional activities in taxonomies. We note this as an area that the IPSF endeavors to work towards in 2022.

We are of the view that one key principle for interoperability and comparability could be that taxonomies are calibrated with the same ambitious overall targets. A taxonomy calibrated with a 2°C target cannot be considered as comparable to a taxonomy calibrated with a 1.5°C target on the same time horizon. However, the interim targets and pathways to these targets could be tailored to specific regions, and economies within those regions, as not all starting points and the economies are the same.

Question 3 – What could be other pathways/methods to identify additional globally eligible activities?

See our answer to question 2.

Question 4 - What other eligible activities would be useful to you/your organization if included?

The general preference of our members is to develop principles for the design of transparent, rigorous, and interoperable taxonomies and/or their mutual recognition. However, if the IPSF decides to continue identifying eligible activities in a reiteration of the methodology that led to the IPSF's CGT analysis, we do not at this stage have a view on other eligible activities that should be considered.

Question 5 - What is your expectation for future developments of the CGT e.g., inclusion of: other taxonomy features, other environmental objectives, other jurisdictions' taxonomies etc.?

See our answer to question 2. The industry is looking for more information and practical guidance, beyond the IPSF's first iteration of the CGT analysis. We note it is reasonable to expect significant enhancements and standards over time and iteratively, so perhaps this could be done in parallel with the exploration of principles for interoperability/mutual recognition.

Additionally, it would be useful if some concepts could be further clarified:

- "Overlap": it is not clear if this refers to an overlap regarding activities or regarding thresholds (defined at activity level).
- "Interoperability": a definition would be welcome; the assessment to which extent interoperability would allow financial institutions to consider as "green" exposures aligned with foreign taxonomies in their disclosure regulatory requirements (e.g., green asset ratio) or their market products (e.g., green bonds issuances).

Question 6 - How could the presentation of CGT be improved to meet your expectations?

Considering the present aim of the IPSF's CGT analysis, our members have no issues with the presentation. The methodology is reasonably clearly explained, and the outcomes understandable, although we suggest the IPSF consider in future iterations practical examples illustrating how its analysis can be applied.

When developing taxonomies, regulators need to consider the harmonization of taxonomies to support better data and more consistent regulation. A flexible and principles-based approach needs to be maintained, while not diminishing the ambition of the high-level target of calibrating taxonomies to the same overall targets.

As explained, principles for interoperability across taxonomies will likely also be required. We refer to our answers to questions 1 and 2 for our fundamental response.

<u>Use cases</u>

We include a hypothetical use case, as identified by our members to illustrate the issues with the usability of the IPSF's CGT analysis:

Use case 1

A German bank is financing a Canadian company to do some property acquisition and renovation in China. Some of the properties are targeted for 25% energy improvement and some for 50%. How should a firm determine how much of the financing is green? Should it use the China Catalogue, which seems to lead to the answer of 100% as there is no improvement threshold; or the EU Taxonomy (where the threshold is 30% energy improvement so only some of your investment counts); or the Common Ground Taxonomy, even though it has no legally binding force and does not give you an answer as it just says the EU is stricter?

If the bank then wants to securitize or sell that loan or bond to an investor, which taxonomy does

it use? Should this be informed by the location of investor is located – e.g., the GFIT Taxonomy for a Singapore investor, or the UK's taxonomy for a UK investor; the EU Taxonomy, if it is a German bank; the China Catalogue since the investment is in China; the Canadian Taxonomy as the financing is to a Canadian company; or, all of them? Or is it a complex decision depending on a combination of where the investor, the product issuer, the intermediary and the project are, with possibly different answers for different permutations of investors?

Other taxonomy dependencies

In solving the question of which taxonomy may apply to a transaction when multiple taxonomies exist, it is important not to forget that taxonomies are dependent on corporate disclosures and laws to require this and the availability of data to enable those disclosures to be made. The work of the IPSF on the CGT analysis will not enable taxonomies to operate unless these issues are also solved simultaneously.

Further contact

If you have further questions or would like to discuss the contents of this submission, please contact Allison Parent at GFMA (aparent@global.gfma.org) and Matthew Chan at ASIFMA (mchan@asifma.org).

Yours faithfully,

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Appendix A: GFMA-BCG Global Principles for Developing Climate Finance Taxonomies

1. Climate finance taxonomies should be broadened beyond use of proceeds to capture entity-level activities and all eligible sources of capital.
1.1 Define financial products and instruments that are more suited to an entity-level approach than a use-of-proceeds model 1.2 Define a framework for standards and methodologies for use by external providers and rating agencies to support entity-level assessments 1.3 Define metrics & thresholds for entity-level classification informed by national & industry science-based targets 1.4 Enhance and standardize disclosures to facilitate mapping revenue or assets to different industry sub-sectors and activities 1.5 Enhance and standardize disclosures to provide transparency and comparability of reporting on the alignment of an entity to national and industry-specific science-based targets
2. Climate finance taxonomies should be objective in nature, supported by clearly defined metrics and thresholds aligned to the Paris Agreement, and science-based targets.
2.1 Establish objective metrics that are science-based to reduce subjectivity in eligibility assessments and labelling 2.2 Calibrate thresholds using science-based targets and phase expectations in line with interim rather than end-state targets to account for differences in transition pathways 2.3 Enhance disclosure standards to include standardized metrics, thereby improving data availability, transparency, comparability, and ease of third-party verification
3. 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.
3.1 Align key metrics and performance indicators to global standards, thereby minimizing measurement differences between regions 3.2 Define and apply eligibility thresholds at a regional and sector level, as opposed to broad-based global targets, to reflect differences in national policies and prevent exclusion of emerging markets 3.3 Update and refresh eligibility thresholds periodically to capture changing expectations as countries move forward in decarbonization over time and transition pathways across emerging and developed markets converge
4. 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.
4.1 Focus reporting and eligibility criteria as defined in taxonomies on a limited, non-exhaustive set of metrics 4.2 Align mandatory and voluntary disclosure and reporting standards to the key metrics defined for a given sector or technology 4.3 Improve transparency into third-party verification standards, data requirements, and methodologies

5. Climate Finance taxonomies should be based on a governance process that is robust, inclusive, and transparent, and has the flexibility for continued evolution.
5.1 Clearly outline the scope, objective, use case, and intended users of the taxonomy 5.2 Build a robust process with inputs from appropriate stakeholders, including the intended users, the entities that will be assessing taxonomy alignment, and relevant technical experts 5.3 Create flexibility for ongoing evolution such that standards do not become outdated