

# PRI CONSULTATION RESPONSE

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## COMMON GROUND TAXONOMY

14 January 2022

## INTRODUCTION

The Principles for Responsible Investment (PRI) is the world's leading initiative on responsible investment. The PRI has now over 4,500 signatories (pension funds, insurers, investment managers and service providers) to the PRI's six principles with approximately US \$120 trillion in assets under management.

The PRI supports its international network of signatories in implementing the Principles. As long-term investors acting in the best interests of their beneficiaries and clients, our signatories work to understand the contribution that environmental, social and governance (ESG) factors make to investment performance, the role that investment plays in broader financial markets and the impact that those investments have on the environment and society as a whole.

The PRI works to achieve this sustainable global financial system by encouraging adoption of the Principles and collaboration on their implementation; by fostering good governance, integrity and accountability; and by addressing obstacles to a sustainable financial system that lie within market practices, structures and regulation.

The PRI welcomes the opportunity to respond to the International Platform on Sustainable Finance [call for feedback](#) on the result of the technical comparison of some features of the EU Taxonomy and the China Green Bond Endorsed Projects Catalogue.

## ABOUT THIS CONSULTATION

The International Platform on Sustainable Finance (IPSF) is a multilateral forum that aims to enable the exchange of practices and increase international cooperation on sustainable finance related matters.

In July 2020 China and the EU initiated a working group on taxonomies with the objective of undertaking a comprehensive comparison of their respective frameworks that identify environmentally sustainable activities: the EU Taxonomy and the China Green Bond Endorsed Projects Catalogue. This work is known as the IPSF 'Common Ground Taxonomy' (CGT).

On 4 November 2021, the IPSF published a CGT package consisting of a(n):

- [Instruction report](#). This report provides an overview of the methodology that was used in identifying the commonalities and differences between the approaches and outcomes of the EU Taxonomy and the China Green Bond Endorsed Projects Catalogue
- [CGT table](#). This table provides an activity-by-activity mapping and a high-level comparison of criteria of the EU Taxonomy and the China Green Bond Endorsed Projects Catalogue
- [Call for feedback](#).

### For more information, contact:

**Jan Vandermosten**

Senior Policy Analyst, EU

[Jan.vandermosten@unpri.org](mailto:Jan.vandermosten@unpri.org)

**Di Tang**

Senior Policy Analyst, China

[Di.tang@unpri.org](mailto:Di.tang@unpri.org)

## KEY RECOMMENDATIONS

The PRI welcomes the development of a Common Ground Taxonomy (CGT) by the International Platform on Sustainable Finance (IPSF). Taxonomies are a key tool for redirecting financial flows towards economic activities that meet robust sustainability standards and are aligned with high-level policy commitments such as climate neutrality or green investments objectives. However, the risk of divergence between taxonomies developed across various markets is a major concern for investors.

The PRI welcomes the focus on the more stringent criteria in the CGT. Investors that consistently apply the more stringent criteria across all their investments will de facto be compliant with either framework at any time. In addition, applying the most stringent criteria will drive a race to the top in the harmonisation of global best practices rather than an alignment amongst a lowest common denominator.

The CGT could be a useful tool to increase the interoperability of taxonomies, on the condition that clarifications and improvements are made regarding its purpose, science-basis, methodology and presentation of criteria.

The PRI recommends that the IPSF:

- **Clarify the role of the CGT as a benchmark for future taxonomy development and compliance.** While the CGT states that it is not ‘*a proposal for international standards*’, governments and investors will likely use it either as a benchmark for the development of their own domestic taxonomy frameworks or to define their investment strategies. Hence, the IPSF should provide further guidance about how the CGT can be used for such purposes.
- **Strengthens the science-basis of the CGT.** The IPSF and UNDESA input paper for the G20 SFWG with the title ‘*improving compatibility of approaches to identify, verify and align investments to sustainability goals*’ (henceforth G20 SFWG input paper) states that ‘*approaches to align investments with sustainable goals, including definitions and taxonomies, should be objective in nature, supported by clearly defined and disclosed metrics and thresholds that align with the best available science and are internationally interoperable meet robust sustainability standards and are aligned with high-level policy commitments*’<sup>1</sup>. Investors also expect that taxonomies are science-based. The CGT should include additional information, established through an independent assessment, about the extent to which the retained criteria are science-based.
- **Amends its methodology to assess economic activities and their screening criteria by:**
  - Changing the ‘scenario’ terminology. The term ‘scenario’ means ‘*a description of how things might happen in the future*’. The CGT assessment of economic activities and their screening criteria has no forward-looking aspect to it. We therefore recommend using a more appropriate term, such as ‘outcome’, ‘case’ or ‘result’.
  - The methodology combines independently important aspects – ‘overlap in scope’ and ‘stringency/detail of screening criteria’ – into its six ‘scenarios’. This creates confusion. We encourage the IPSF to provide a more precise definition and allocation by employing a two-step approach: it should start by assessing overlap in scope of economic activities, followed by – where there is such overlap – determining and justifying whether one set of substantial contribution criteria is more stringent than the other.
- **Justifies the assessment of stringency of screening criteria.** When one set of substantial contribution criteria are deemed more stringent than the other, there should be an explicit and detailed reasoning and justification for this assessment. This could be placed in the ‘additional notes’

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<sup>1</sup> <https://g20sfgw.org/wp-content/uploads/2021/09/G20-SFWG-DESA-and-IPSF-input-paper.pdf>

section for the economic activity in the CGT table. Furthermore, we recommend the IPSF to consider including, as part of this explanation, whether the 'less stringent' criteria are significantly worse. Finally, in the case of climate mitigation targets, if both criteria are aligned with a 1.5C warming pathway it doesn't matter whether one criterion is more stringent than the other – and it can be considered misleading to say otherwise.

## DETAILED RESPONSE

### 1. Does the current CGT provide a useful reference for you/your organisation?

The PRI welcomes the development of a Common Ground Taxonomy (CGT) by the International Platform on Sustainable Finance (IPSF). **Taxonomies are a key tool for redirecting financial flows towards economic activities that meet robust sustainability standards and are aligned with high-level policy commitments**, but the risk of divergence between taxonomies is a major concern for investors. The PRI works with its investor signatories to promote policies that support responsible investment practice. Sustainable taxonomies are a key part of sustainable finance policy reforms.<sup>2</sup>

- PRI has established an EU Taxonomy Practitioners group through which it has developed 37 case studies and a summary report that showcase how investors have started integrating the EU Taxonomy in their sustainable investment strategies<sup>3</sup>. PRI is currently working on a follow-up report (expected early 2022) and has found that investors are also attentive to how the EU Taxonomy relates to other initiatives.
- PRI has responded to consultations about Taxonomy developments in China, South Africa, Singapore and Russia<sup>4</sup>. In our response to the consultation on the China Green Bond Endorsed Projects Catalogue (referred to as 'China Taxonomy' in the CGT) from August 2020, we highlighted – amongst other – that it should '*contribute to international alignment through continued dialogue with international standard setters and policymakers engaged in defining global green bond standards, taxonomies and related sustainable finance policies*'. The CGT is a good step in that direction.

**The CGT can provide a useful reference for investors and governments, because of its approach to:**

- **Map, where possible, the screening criteria that are 'either narrower in scope or more stringent and/or detailed'**. Investors that consistently apply the more stringent criteria across all their investments will de facto be compliant with either framework at any time. In addition, applying the most stringent criteria will drive a race to the top amongst governments and investors in the harmonisation of global best practices rather than an alignment along a lowest common denominator. PRI believes, however, that the IPSF should amend its methodology to assess economic activities and their screening criteria by:
  - (1) changing the term 'scenario', which unrightfully implies a forward-looking aspect, to a more appropriate term (e.g. outcome, 'case' or 'result'); and
  - (2) providing a more precise definition and allocation of economic activities by disentangling 'overlap in scope' and 'stringency/detail of screening criteria'.
- **Focus on 'what currently exists'**. This has resulted in a factual comparison between economic activities included in the EU Taxonomy and the China Green Bond Endorsed Projects Catalogue

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<sup>2</sup> <https://www.unpri.org/policy/regulation-database/policy-and-regulation-toolkit>

<sup>3</sup> <https://www.unpri.org/eu-taxonomy-alignment-case-studies/testing-the-taxonomy-insights-from-the-pri-taxonomy-practitioners-group/6409.article>

<sup>4</sup> <https://www.unpri.org/policy/consultations-and-letters>

mapped against an internationally recognised sector classification (ISIC), and makes it a relevant resource for investors or government that wish to better understand how the two instruments relate to one another.

## 2. How can the CGT be taken forward to enhance comparability and interoperability of sustainable finance taxonomies globally?

The PRI welcomes the development of a Common Ground Taxonomy (CGT) by the International Platform on Sustainable Finance (IPSF). To enhance comparability and interoperability of sustainable finance taxonomies globally, **PRI recommends that the IPSF makes the following direct improvement to the CGT:**

- **Clarify the role of the CGT as a benchmark for future taxonomy development and compliance.** While the CGT states that it is not ‘a proposal for international standards’, governments and investors will likely use it as a benchmark for the development of their own domestic taxonomy frameworks or to define their investment strategies. Hence, the IPSF should provide further guidance about how the CGT can be used for such purposes.
- **Clarify the reasons for and implications of focusing on the more stringent criteria in the EU Taxonomy and the China Green Bond Endorsed Projects Catalogue.**
  - Investors that consistently apply the more stringent criteria across all their investments will de facto be compliant with either framework at any time. In addition, applying the most stringent criteria will drive a race to the top in the harmonisation of global best practices rather than an alignment amongst a lowest common denominator.
  - The CGT must clarify that by focusing on the more stringent criteria, it does not intend to provide a comprehensive overview of all the criteria in the EU Taxonomy and the China Green Bond Endorsed Projects Catalogue.
- **Amend the CGT methodology to assess economic activities and their screening criteria by:**
  - Changing the ‘scenario’ terminology. The Oxford Dictionary describes the term ‘scenario’ as ‘a description of how things might happen in the future’. The CGT assessment of economic activities and their screening criteria has no forward-looking aspect to it. We therefore recommend using a more appropriate term, such as ‘outcome’, ‘case’ or ‘result’.
  - Clarifying its ‘scenarios’. The six scenarios developed by the CGT combine two different elements: (1) overlap between the scope of activities covered in each framework, and (2) the stringency/detail of the screening criteria applied to these economic activities. ‘Overlap in scope’ and ‘stringency/detail of screening criteria’ are each independently important aspects of taxonomy criteria. We encourage the IPSF to provide a more precise definition and allocation by employing a two-step approach: it should start by assessing overlap in scope of economic activities, followed by – where there is such overlap – determining and justifying whether one set of substantial contribution criteria is more stringent than the other.

PRI recommends that the points above are reflected in the CGT table by **amending the first point under ‘what the CGT is’ (page 1)** as follows (additional text in bold): *‘An analysis on approaches of the EU taxonomy and the China Green Bond Endorsed Projects Catalogue, and the methodology for comparing and identifying commonalities and differences between some features of the two taxonomies. **The CGT identifies whether there is alignment in the scope of economic activities covered in both taxonomies; and which screening criteria are more stringent for the economic activities where such alignment exists. It therefore does not intend to provide a comprehensive overview of all criteria in the EU Taxonomy and the China Green Bond Endorsed Projects Catalogue.**’*

**In addition to the above-mentioned recommendations for direct improvement to the CGT, PRI suggests that IPSF reflects the growing consensus that taxonomies should be science-based:**

- PRI and the World Bank have published a toolkit for sustainable investment policy and regulation that states that Taxonomies '*should help investors assess whether investments meet robust sustainability standards and are aligned with high-level policy commitments*'<sup>5</sup>.
- The IPSF and UNDESA input paper for the G20 SFWG with the title '*improving compatibility of approaches to identify, verify and align investments to sustainability goals*' (henceforth G20 SFWG input paper) has defined seven principles, including the need for all approaches to be '*science-based: approaches to align investments with sustainable goals, including definitions and taxonomies, should be objective in nature, supported by clearly defined and disclosed metrics and thresholds that align with the best available science and are internationally interoperable meet robust sustainability standards and are aligned with high-level policy commitments*'<sup>6</sup>.
- Investors want to use taxonomies first and foremost to make informed investment decisions that are aligned with environmental boundaries and societal needs. This requires objective, science-based and transparent criteria; and does not mean investors will all disinvest in the short term from non-taxonomy aligned activities: they will also continue to consider other factors such as non-sustainability risks, maturity of technologies, portfolio diversity and profitability.

In light of the above, **the CGT should include additional information, established through an independent assessment, about the extent to which the included criteria are science-based.**

- This will help investors to assess whether complying with/using these criteria for product development will truly render their investments environmentally and socially sustainable, and to navigate the transition to a low-carbon and inclusive economy.
- The assessment should take into account that criteria developed in different geographies are determined by their starting points and development needs. For climate change criteria, for instance, the assessment can be linked to regional Paris-aligned decarbonisation pathways (e.g. from the IEA<sup>7</sup> or Inevitable Policy Response<sup>8</sup>).
- The assessment of criteria must keep in mind that the objective of taxonomies is to define which economic activities are *inherently sustainable*, which is distinct from identifying which economic activities can *enable the net-zero transition*.

### 3. What could be other pathways/methods to identify additional globally eligible activities?

Sustainable taxonomies are the key tool to identify globally eligible activities: they provide a common language for investors, issuers, project promoters and policymakers. They are necessary for investors to assess whether investments meet robust sustainability standards and align with policy commitments such as the Paris Agreement on Climate Change, the Sustainable Development Goals (SDGs), and national sustainability and climate change goals.

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<sup>5</sup> <https://www.unpri.org/policy/regulation-database/policy-and-regulation-toolkit>

<sup>6</sup> <https://g20sfgw.org/wp-content/uploads/2021/09/G20-SFWG-DESA-and-IPSF-input-paper.pdf>

<sup>7</sup> <https://www.iea.org/reports/world-energy-outlook-2021>

<sup>8</sup> <https://www.unpri.org/sustainability-issues/climate-change/inevitable-policy-response>

#### 4. What other eligible activities would be useful to you/your organisation if included?

The CGT includes economic activities from agriculture, forestry and fishing; manufacturing; electricity, gas, steam and air conditioning supply; water supply; sewage, waste management and remediation activities; construction; and transportation and storage. These are the most relevant sectors for the current climate change mitigation focus of the CGT. However, a re-assessment of eligible activities would be relevant when the CGT is expanded to include other environmental objectives.

#### 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.?

The PRI welcomes the development of a Common Ground Taxonomy (CGT) by the International Platform on Sustainable Finance (IPSF). In terms of further development, we recommend taking into consideration the following aspects (these have been ordered as highest priority first).

- **Acknowledge more fully the role of the CGT as a benchmark for future taxonomy development and compliance.** While the CGT states that it is not 'a proposal for international standards', investors and governments will likely use it as a benchmark for the development of their own domestic taxonomy frameworks and investment strategies. Hence, the IPSF should provide further guidance about how the CGT can be used for such purposes.
- **Clarify the reasons for and implications of focusing on the more stringent criteria in the EU Taxonomy and the China Green Bond Endorsed Projects Catalogue.**
  - Investors that consistently apply the more stringent criteria across all their investments will de facto be compliant with either framework at any time. In addition, applying the most stringent criteria will drive a race to the top in the harmonisation of global best practices rather than an alignment amongst a lowest common denominator
  - The CGT must clarify that by focusing on the more stringent criteria, it does not intend to provide a comprehensive overview of all the criteria in the EU Taxonomy and the China Green Bond Endorsed Projects Catalogue.
- **Amend the CGT methodology to assess economic activities and their screening criteria by:**
  - Changing the 'scenario' terminology. The Oxford Dictionary describes the term 'scenario' as 'a description of how things might happen in the future'. The CGT assessment of economic activities and their screening criteria has no forward-looking aspect to it, however: we therefore recommend using a more appropriate term, such as 'outcome', 'case' or 'result'.
  - Clarifying its 'scenarios'. The six scenarios developed by the CGT combine two different elements: (1) overlap between the scope of activities covered in each framework, and (2) the stringency/detail of the screening criteria applied to these economic activities. 'Overlap in scope' and 'stringency/detail of screening criteria' are each independently important aspects of taxonomy criteria, however. We encourage the IPSF to provide a more precise definition and allocation by employing a two-step approach: it should start by assessing overlap in scope of economic activities, followed by – where there is such overlap – determining and justifying whether one set of substantial contribution criteria is more stringent than the other.
- **Include a comparison of disclosure requirements and scope of the EU Taxonomy and the China Green Bond Endorsed Projects Catalogue.** The EU Taxonomy includes binding disclosure requirements and applies across asset classes, while the China Green Bond Endorsed Projects Catalogue only encourages disclosure for issuers of green financial bonds, green corporate bonds and debt financing instruments. By outlining these differences in the CGT Table, the CGT can help investors to better understand how to comply with and use the respective taxonomies.

- **Include comparison of DNSH criteria and minimum safeguards** (as mentioned in the CGT instruction report and principle 2 of the G20 SFWG input paper). Both the EU Taxonomy and the China Green Bond Endorsed Projects Catalogue specify that an economic activity can only be truly sustainable if it complies with DNSH criteria in addition to substantially contributing to climate change mitigation; and they also both include references to minimum social safeguards. Including these aspects, over time and as comparable criteria become available, will therefore be crucial to ensure the CGT provides a comprehensive comparison of frameworks and reflects all fundamental elements of an effective sustainable finance taxonomy. This can in turn drive investor capital towards sustainable economic activities that comply with all the relevant criteria of the frameworks that are included in the CGT.
- **Strengthens the science-basis of the CGT.** The G20 SFWG input paper states that '*approaches to align investments with sustainable goals, including definitions and taxonomies, should be objective in nature, supported by clearly defined and disclosed metrics and thresholds that align with the best available science and are internationally interoperable meet robust sustainability standards and are aligned with high-level policy commitments*'. Investors also expect that taxonomies are science-based. In light of this, the CGT should include additional information, established through an independent assessment, about the extent to which the included criteria are science-based.
- **Include climate adaptation and other environmental objectives and other jurisdictions' taxonomies** as they become operational (as mentioned in the CGT instruction report and principle 6 of the G20 SFWG input paper).
- **Include 'transition' considerations**
  - PRI recommends that a clear distinction is made between economic activities that are needed to enable the net-zero transition and activities that are inherently sustainable. It would therefore be worthwhile to develop transition considerations as part of a separate exercise.
  - Even when taking in account the point above, a comparison of criteria for 'transition' considerations must be done with caution. Said criteria will be informed by geographies' differing starting points and development needs.
  - The comparison work can take in account existing efforts in the EU, such as the draft report by the Platform on Sustainable Finance (PSF); and China, such as the standards of transition finance that PBOC is working on with other relevant ministries and departments.

## 6. How could the presentation of CGT be improved to meet your expectations?

PRI welcomes the structured layout of the CGT and the clear presentation of what the CGT is and what it is not. However, we make the following recommendations regarding how the presentation of the CGT could be improved:

- **Amend the CGT methodology to assess economic activities and their screening criteria**

First, the CGT should change the 'scenario' terminology. The Oxford Dictionary describes the term 'scenario' as 'a description of how things might happen in the future'. The CGT assessment of economic activities and their screening criteria has no forward-looking aspect to it, however: we therefore recommend using a more appropriate term, such as 'outcome', 'case' or 'result'.

Second, the CGT should clarify its scenarios. The six scenarios developed by the CGT combine two different elements: (1) overlap between the scope of activities covered in each framework, and (2) the stringency/detail of the screening criteria applied to these economic activities. 'Overlap in scope' and 'stringency/detail of screening criteria' are each independently important aspects of taxonomy criteria, however.

To resolve the above, the PRI proposes a two-stage process for assessing the substantial contribution criteria of an economic activity, separating stringency from the scope of economic activity covered. Please note in this regard that the definitions of the scenarios below are based upon PRI's interpretation of the diagram on page 27 of the CGT instruction report, and may not precisely overlap with the IPSF's definition. We encourage the IPSF to assess this proposal and ensure the CGT provides more precise scenario definition and allocation.

**Step 1** – Assign scenarios based on alignment of scope of an economic activity covered in the China Green Bond Endorsed Projects Catalogue and EU Taxonomy

- Two identical economic activities (scenario 1)
- EU activity falls under (within) the China Green Bond Endorsed Projects Catalogue activity (scenario 2)
- China activity falls under (within) an EU Taxonomy activity (scenario 3)
- EU Taxonomy and China Green Bond Endorsed Projects Catalogue activities overlap but scope of each is not identical and the whole of one does not fall within the scope of another (scenario 4)
- EU Taxonomy and China Green Bond Endorsed Projects Catalogue activities have very little overlap in scope (scenario 5)
- EU taxonomy activity does not exist in the China Green Bond Endorsed Projects Catalogue and vice versa (scenario 6)

Scenario 5 and 6 activities are excluded from the CGT as there is insufficient alignment in scope to perform a comparative analysis.

- **Step 2** – For the remaining 4 scenarios, where there is overlap, determine and justify whether one set of substantial contribution criteria is more stringent than the other. Four sub-categories are available:
  - The China Green Bond Endorsed Projects Catalogue is more stringent than the EU Taxonomy (sub-option a)
  - The EU Taxonomy is more stringent than the China Green Bond Endorsed Projects Catalogue (sub-option b)
  - Both TSC are equally stringent (sub-option c)

Therefore, each activity would be allocated a scenario and sub letter – e.g. activity x is scenario 4b.

■ **Provide a full description of the selected substantial contribution criteria**

The CGT table specifies 'substantial contribution criteria' but there is an inconsistent approach to how much detail is given (e.g. compare A.1.1. with C1.1). The CGT should always provide a full description of the selected substantial contribution criteria, in line with its approach to map the most stringent criteria. This would imply the following for the sub-options outlined above:

- Sub-option a: the CGT should only include the Chinese criteria
- Sub-option b: the CGT should only include the EU criteria
- Sub-option c: the CGT should include the criteria from both the China and EU Taxonomy

For all the cases above, the CGT should always include the exact/original reference of the economic activity in the EU Taxonomy and/or the China Green Bond Endorsed Projects Catalogue.

■ **Justify the assessment of stringency**

When one set of substantial contribution criteria are deemed more stringent than the other, there should be an explicit and detailed reasoning and justification for this assessment. This could be placed in the 'additional notes' section for the economic activity in the CGT. Furthermore, we recommend the IPSF to consider including, as part of this explanation, whether the 'less stringent' criteria are actually significantly

worse. In the case of climate mitigation targets, if both criteria are aligned with a 1.5C warming pathway it doesn't matter whether one criterion is more stringent than the other – and it can be considered misleading to say otherwise.

- **Transform the CGT table into a user-friendly online platform**

This would enable users to quickly search/navigate between sectors, and allow for more detailed descriptions of substantial contribution criteria, reasoning for stringency etc. This could take a similar format to the EU Taxonomy Compass<sup>9</sup>.

*The PRI has experience of public policy on sustainable finance policies and responsible investment across multiple markets and stands ready to further support the work of the IPSF in the development of the CGT across the EU, China and other relevant jurisdictions.*

*Any question or comments can be sent to [policy@unpri.org](mailto:policy@unpri.org).*

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<sup>9</sup> [https://ec.europa.eu/sustainable-finance-taxonomy/tool/index\\_en.htm](https://ec.europa.eu/sustainable-finance-taxonomy/tool/index_en.htm)