

The EU Taxonomy Impact on Banks

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1. SFSC Objectives & Structure

- Objectives: networking, visibility, policy dialogue

2. Policy Dialogue Priorities

Working Verticals

- Central Banking
- Commercial Banking
- Capital Markets
- ESG Disclosures / Taxonomy
- Corporate Finance
- Insurance: start

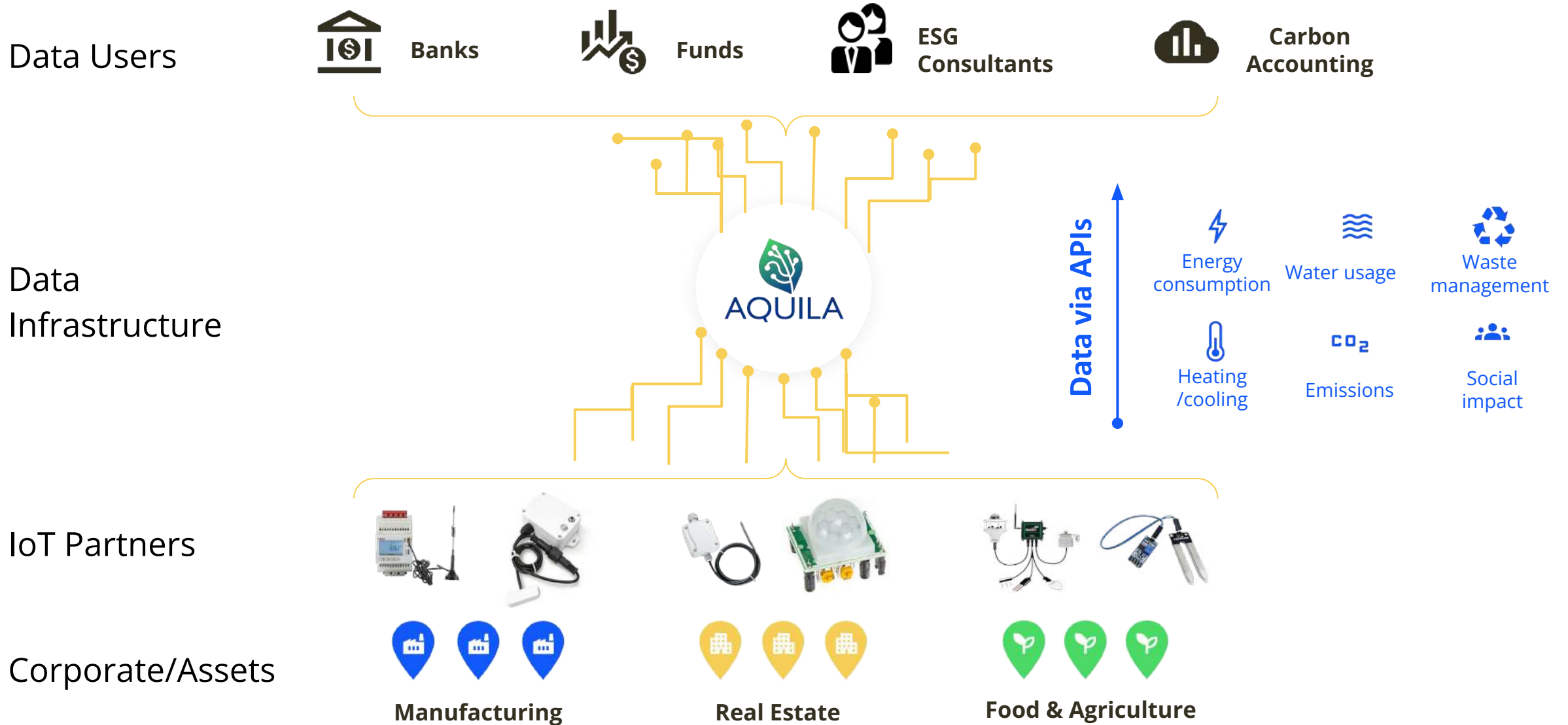
2024 Themes in Focus

- Sustainable Trade Finance
- ESG Disclosures / Taxonomy
- Adaptation Finance

3. SFSC Board KPIs 2024

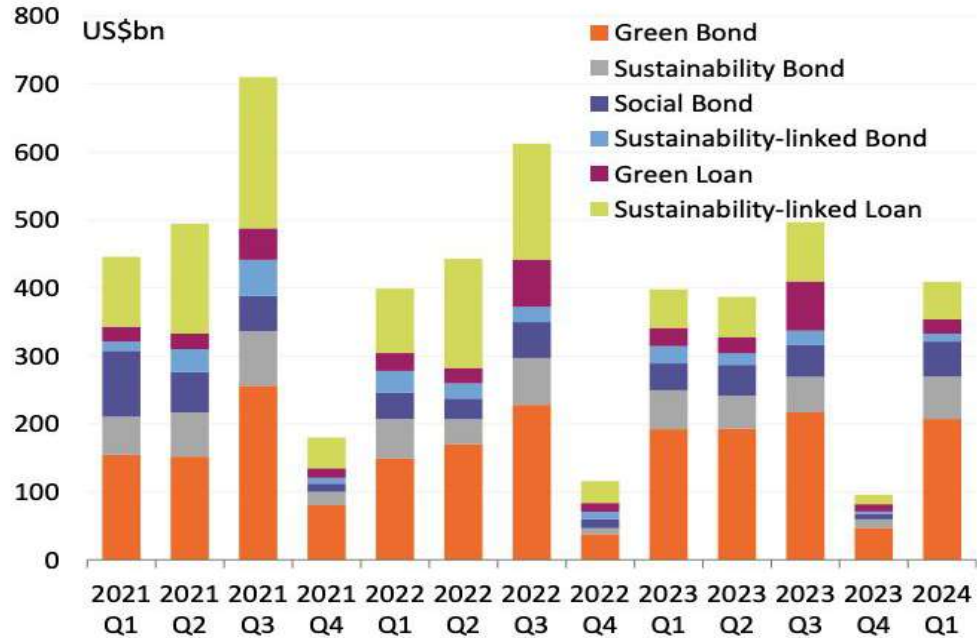
Chair	Aquila	Policy Dialogue	3 Letters to Govt + Research
Vice chair	Techcombank	Membership	15 members in 2024
Vice chair	FiinGroup	Events/Capacity Building	4 events in 2024
Vice chair	KPMG	Collaboration & Coordination other SF initiatives	1 joint publication
Vice chair + Treasurer	Deep C	Administration Finance and Control	Timely budget management

AQUILA.is IoT-Powered Sustainable Finance MRV Technology



Overview

Sustainable Finance Issued



EU view²

Green Credit:

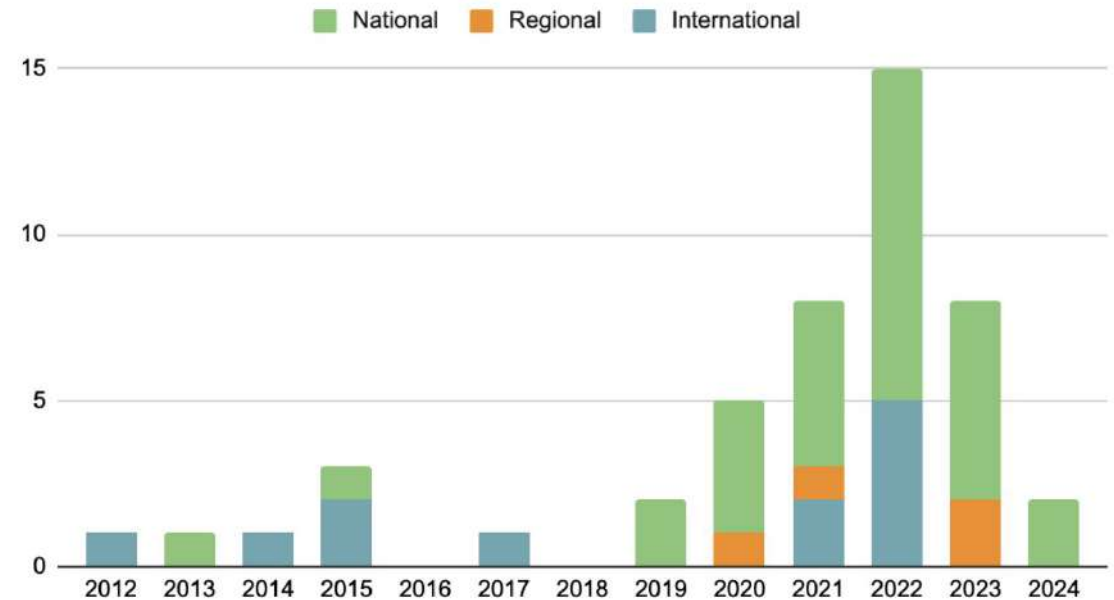
- As of March 31, 2024, EU outstanding green credit stood at **(185 billion USD)**, accounting for **75%** of total banking loans.

Green Bonds:

- From 2019 to 2023, EU issued **200 billion USD** in green bonds, which is a small fraction of the annual demand.
- In 2023, global sustainable bond issuance totaled **550 billion USD**.

Source: ¹ICMA Group ; ²VietnamPlus; ING

Taxonomy trends



Key insights

- 47** sustainable finance taxonomies have been issued globally since 2012.
- 31 are national taxonomies, issued by 20 different countries, of which 13 are [SBFN](#) member countries.
- Most taxonomies (27) identify multiple “green” objectives.
- All countries that have issued taxonomies include a focus on climate change

Current landscapes of taxonomies

INTERNATIONAL TAXONOMIES

Climate Bonds Taxonomy (2012)

ICMA "eligible activities" contained in the Green and Social Bond Principles (2014 & 2017)**

MDB & IDFC Common Principles for Tracking Climate Mitigation and Climate Finance (V2 2015, V3 2021)

EU-China Common Ground Taxonomy on Climate Change Mitigation (2022)

IFC Biodiversity Finance Reference Guide (2022)

IFC Guidelines for Blue Finance (2022)

ICMA, IFC, UNGC, UNEP FI, and ADB Practitioners Guide: Bonds to finance the sustainable blue economy (2023)

**While the ICMA green and social bond guidelines don't offer a formal taxonomy, they form part of the spectrum of defining eligible activities.



What you need to know about the latest EU Taxonomy disclosures

- For the first time ever, the first quarter of 2024 ends with financial institutions' EU Taxonomy (EUT) reports including both eligibility and alignment to the Taxonomy.
- Banks' annual reports and Pillar III disclosures now include the new and widely discussed Green Asset Ratio (GAR), designed to become a snapshot of banks' environmental sustainability.
- While some expected this first year's GAR average to be lower than 10%, banks reported, on average, only 3% GAR.
- When looking at the EUT eligibility rate, financial institutions still reported around 35% Taxonomy eligible assets, a 5-percentage point (pp) increase since 2022.

Sample of 33 European banks from 13 jurisdictions - results are strikingly low.



EU Taxonomy in a nutshell

EU Taxonomy: 6 Environmental Objectives



1

Climate change mitigation



2

Climate change adaptation



3

Sustainable use and protection of water and marine resources



4

Transition to a circular economy



5

Pollution prevention and control



6

Protection and restoration of biodiversity and ecosystems

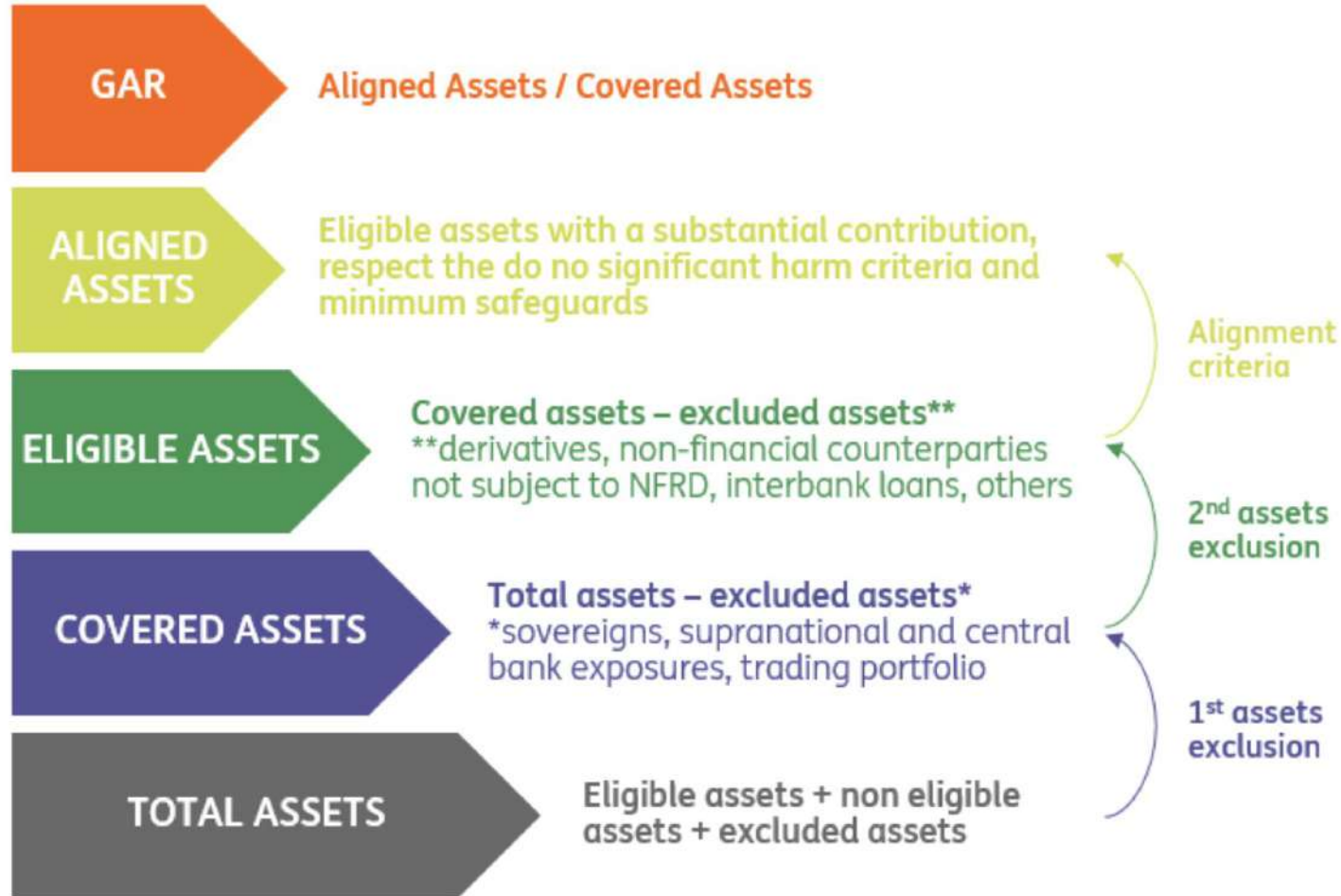
Taxonomy eligible:

- Activities identified in the Climate Delegated Act and Environmental Delegated Act as eligible for the purpose of financing the EU Taxonomy six environmental objectives.

Taxonomy aligned:

- Taxonomy-eligible activities that fully comply with the EU Taxonomy's technical screening criteria for (i) substantial contribution, (ii) do no significant harm and (iii) have the minimum safeguards.

Taxonomy-aligned assets in a bank's portfolio involves three steps



Source: ING research

- To summarise this overflow of European regulation, this year's disclosures matter as it's the first time banks share their EUT alignment and Green Asset Ratio.
- Thus, they give a feel for the ratio that could become the main sustainable indicator for financial institutions.
- Banks' 2022 and 2023 Taxonomy-eligibility disclosures revealed major methodology discrepancies:
 - Because of different calculations used by corporates on which banks rely for their own reporting.
 - Corporates calculate sustainability ratio over: turnover, CapEx or OpEx.

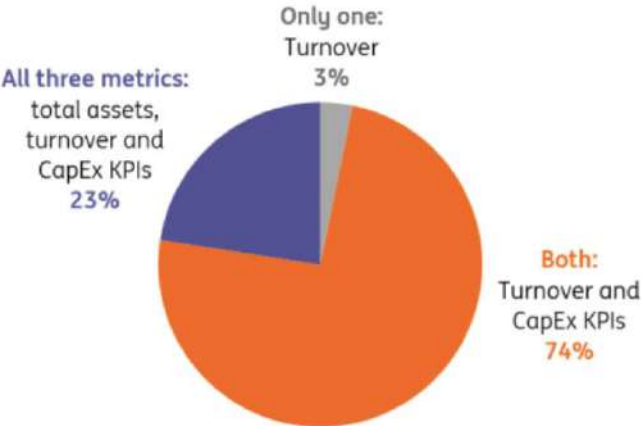
The Green Asset Ratio

Banks reported in 2024, for the first time, both their GAR asset stock and some also added their GAR for their investment flow.

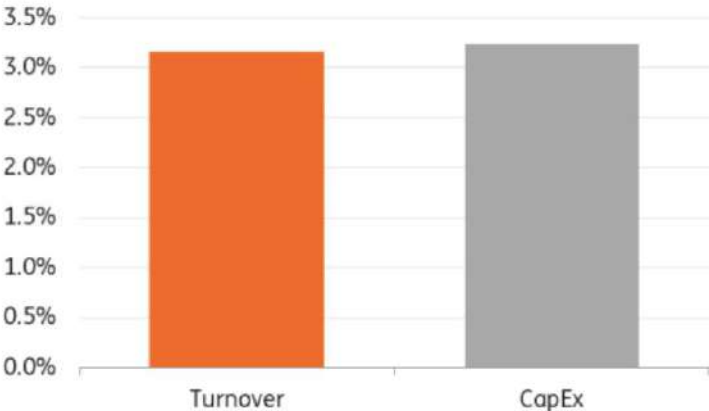
The GAR measures the share of the credit institution's Taxonomy-aligned balance sheet exposures over the total eligible exposures. This gives a short and comparable overview of the credit institution's alignment with the Taxonomy.

$$\text{Green Asset Ratio (GAR)} = \frac{\text{Taxonomy aligned exposures for loans and advances, debt securities and equity holdings}}{\text{Total eligible exposures}}$$

Most banks disclosed over both Turnover and CapEx KPIs



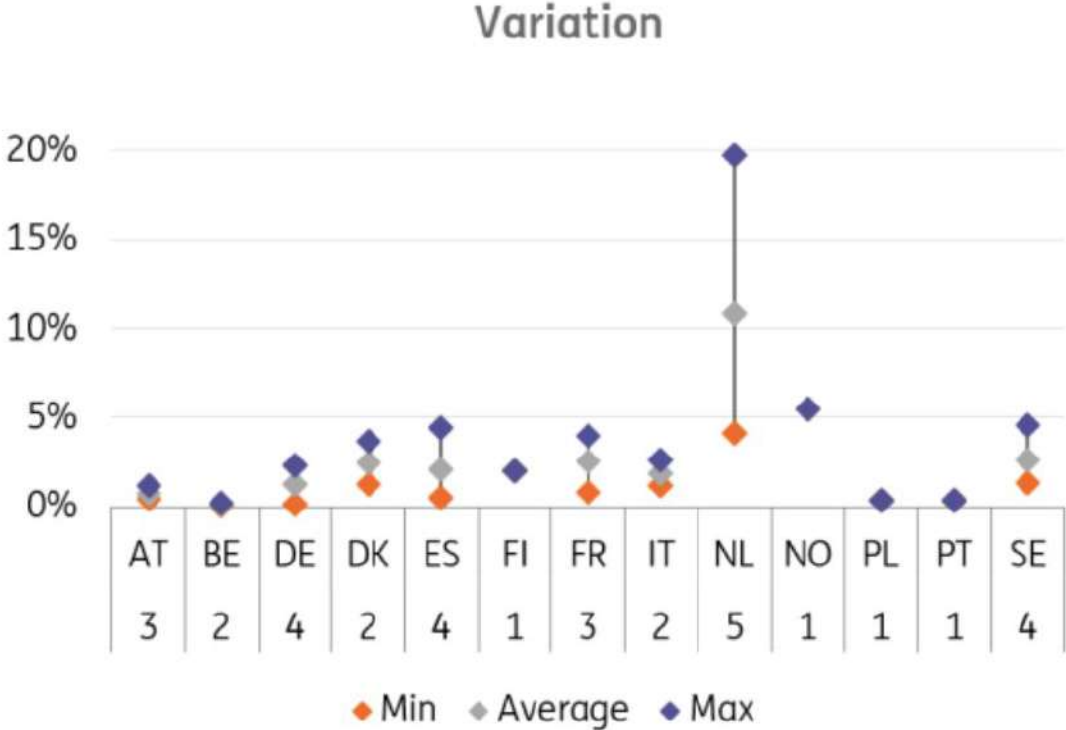
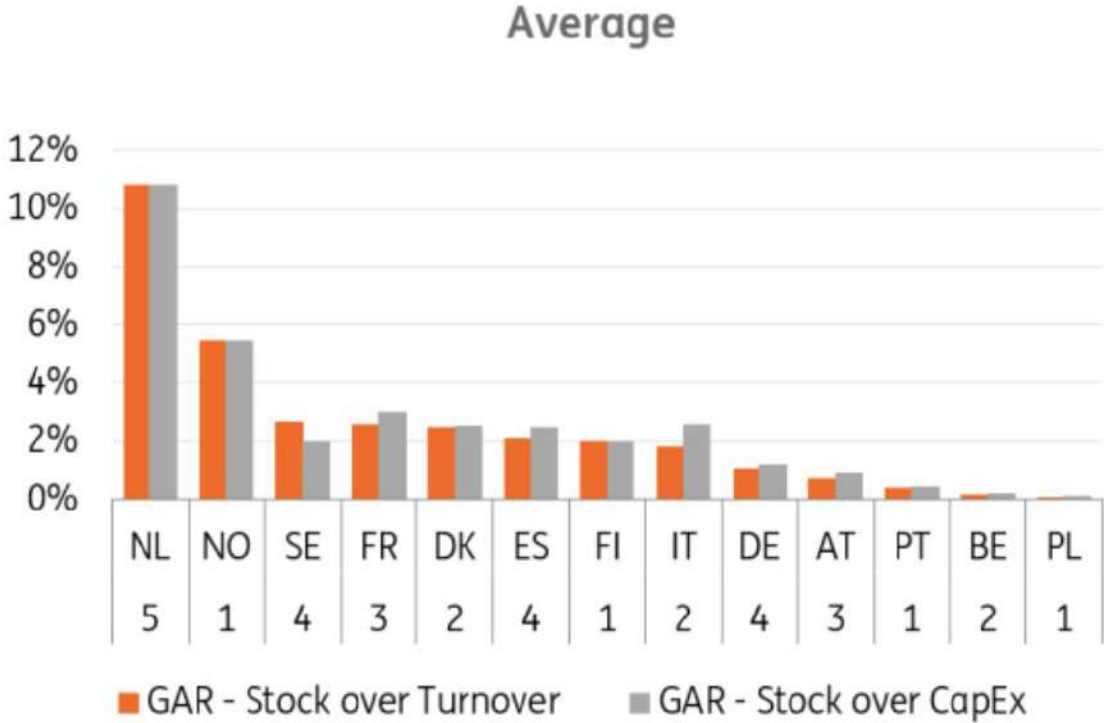
GAR disclosed over CapEx KPI are on average, slightly higher



<https://think.ing.com/articles/hold-taxonomy-disclosures-a-low-start-but-a-start-nonetheless/>

Source: Banks' disclosure report, ING research

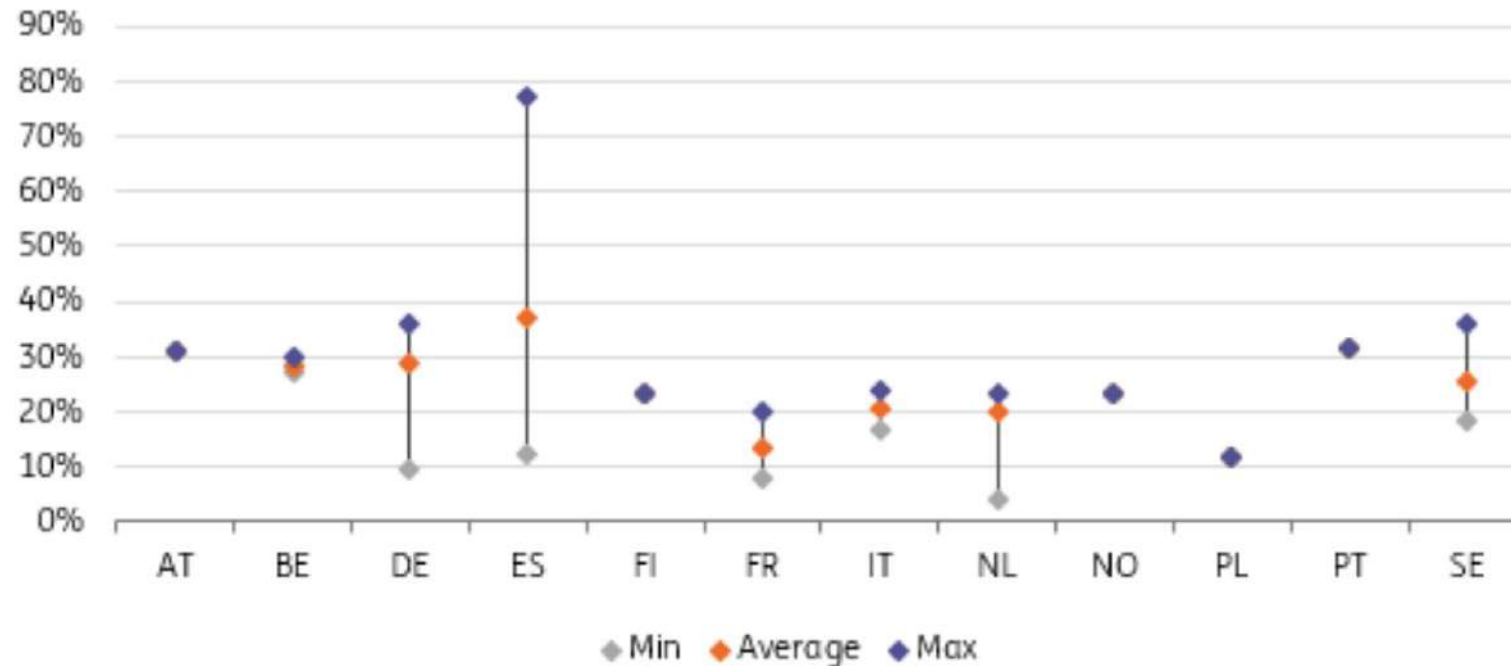
Green Asset Ratio averaged per country



Source: Banks' disclosure report, ING research

While the GAR is an interesting metric to look at, the Taxonomy eligibility and alignment ratios give insights into the share of a bank's portfolio that could become green by improving eligible assets into aligned assets. Over 2021 and 2022, the eligibility rate stabilised around 30% of banks' total assets. Last year's results slightly improved as the 2023 average lies at 35%.

National variation in share of non-financial counterparties not subject to the NFRD



Source: Banks' disclosure report, ING research. Excluding DK due to data gaps

- This ratio shows the share of corporates not yet subject to the European Taxonomy disclosures in the bank's book.
- It's an interesting metric to keep an eye on as the EUT scope will be gradually increased through the CSRD.
- This implies that SMEs and third-country companies' activities will ultimately be included in the ratio.

Results and caution

Large data gaps

- The EU Taxonomy is an extensive piece of regulation requiring corporates to collect substantial information on their activities

Banks are still in a learning phase

- The second point to consider when looking at these reports is the "application uncertainty".

Imperfect methodology

- The Taxonomy scope currently only includes corporates large enough to fall under the NFRD, insurers and financial institutions.
- SMEs and non-EU companies' exclusion has a specific impact on the GAR as it creates an asymmetry in the ratio.
- Financial institutions often finance large projects, including sustainable ones such as wind or solar panel farms, through special-purpose vehicles (SPVs). By doing so, the financed assets may not technically end up on the bank's balance sheet and, therefore, are neither included in the Taxonomy nor GAR.



BNPP GAR Disclosures

► 1. ASSETS FOR THE CALCULATION OF GAR (GAR MEASURE BASED ON TURNOVER)

	31 December 2023																	
	Total [gross] carrying amount	Climate Change Mitigation (CCM)			Climate Change Adaptation (CCA)		Water and marine resources (WTR)		Circular economy (CE)		Pollution (PPC)		Biodiversity and Ecosystems (BIO)		TOTAL (CCM + CCA + WTR + CE + PPC + BIO)			
		of which towards taxonomy relevant sectors (Taxonomy-eligible)			of which towards taxonomy relevant sectors (Taxonomy-eligible)		of which towards taxonomy relevant sectors (Taxonomy-eligible)		of which towards taxonomy relevant sectors (Taxonomy-eligible)		of which towards taxonomy relevant sectors (Taxonomy-eligible)		of which towards taxonomy relevant sectors (Taxonomy-eligible)		of which towards taxonomy relevant sectors (Taxonomy-eligible)			
		of which environmentally sustainable (Taxonomy-aligned)			of which environmentally sustainable (Taxonomy-aligned)		of which environmentally sustainable (Taxonomy-aligned)		of which environmentally sustainable (Taxonomy-aligned)		of which environmentally sustainable (Taxonomy-aligned)		of which environmentally sustainable (Taxonomy-aligned)		of which environmentally sustainable (Taxonomy-aligned)			
	of which Use of Proceeds	of which transitional	of which enabling	of which Use of Proceeds	of which enabling	of which Use of Proceeds	of which enabling	of which Use of Proceeds	of which enabling	of which Use of Proceeds	of which enabling	of which Use of Proceeds	of which enabling	of which Use of Proceeds	of which transitional	of which enabling		
GAR - Covered assets in both numerator and denominator	660,050	276,571	9,137	5,808	2,631	598	117							277,169	9,254	5,808	2,631	
1 Loans and advances, debt securities and equity instruments not HFT eligible for GAR calculation	659,823	276,571	9,137	5,808	2,631	598	117							277,169	9,254	5,808	2,631	
2 Financial undertakings	82,051	6,803	546	495	403	34	4							6,837	550	495	403	
3 Credit institutions	12,674	978												978				
4 Loans and advances	1,356	253												253				
5 Debt securities	6,137	725												725				
6 Equity instruments	5,181																	
7 Other financial corporations	69,377	5,825	546	495	403	34	4							5,859	550	495	403	
8 of which investment firms	47,567	3,108	323	323	231	21	3							3,128	326	323	231	
9 Loans and advances	31,470	1,799	221	221	190	21	3							1,820	224	221	190	
10 Debt securities	11,905	1,309	102	102	102									1,309	102	102	102	
11 Equity instruments	4,792																	
12 of which management companies	8,039	2,231	172	172	171	13	1							2,244	173	172	171	
13 Loans and advances	6,424	2,219	172	172	171	13	1							2,233	173	172	171	
14 Debt securities	752	12												12				
15 Equity instruments	863																	
16 of which insurance undertakings	13,771	487	51	0	0									487	51	0	0	
17 Loans and advances	5,727	48	0	0	0									48	0	0	0	
18 Debt securities	3,445	8												8				
19 Equity instruments	4,599	431	51											431	51			
20 Non-financial undertakings	258,850	42,107	8,590	5,313	2,228	564	113							42,672	8,704	5,313	2,228	
21 Loans and advances	250,750	37,862	7,585	4,789	1,935	564	113							38,427	7,698	4,789	1,935	
22 Debt securities	2,045	1,137	534	534	290									1,137	534	534	290	
23 Equity instruments	6,055	3,108	471	9	3									3,108	471	9	3	
24 Households	307,637	227,656												227,656				
25 of which loans collateralised by residential immovable property	208,499	208,499												208,499				
26 of which building renovation loans	4,617	4,617												4,617				
27 of which motor vehicle loans	14,540	14,540												14,540				
28 Local governments financing	11,286	4												4				
29 Housing financing																		

Sustainable Banking and Finance Network (SBFN) Toolkit

SBFN Toolkit

Sustainable Finance Taxonomies

Developed by the IFC-facilitated Sustainable Banking and Finance Network (SBFN) in cooperation with the Deutsche Gesellschaft für Internationale Zusammenarbeit (GIZ) GmbH

Version 1.0 (2024)

In cooperation with

giz Deutsche Gesellschaft
für Internationale
Zusammenarbeit (GIZ) GmbH



**SUSTAINABLE
BANKING and
FINANCE NETWORK**



IFC

**International
Finance Corporation**
WORLD BANK GROUP

Creating Markets, Creating Opportunities

Overarching goals and sources

Most taxonomies align with global standards such as the Paris Agreement on Climate Change and the Sustainable Development Goals (SDGs), as well as with local commitments and strategies such as Nationally Determined Contributions (NDCs) and National Development Plans.

Overarching goals and alignment													
ASEAN	BANGLADESH	BRAZIL (industry-led)	CHINA	COLOMBIA	EU	GEORGIA	INDONESIA	KAZAKHSTAN	MEXICO	MONGOLIA	SOUTH AFRICA	SRI LANKA	THAILAND
Promote sustainable investments and finance	Integration of sustainability in financial institutions	Measure allocation of finance to the Green Economy	Financial services for green economic activities	Promoting green investments; common language for defining green; science-based approach	Classification and reporting system for sustainable activities	Create market clarity to promote sustainable finance	Capital allocation and sustainable financing in support of Indonesia's Net Zero Emissions (NZE) targets.	Classification of green projects for green finance	Classification of sustainable activities and investment projects	Definition of environmentally sustainable investment	Promote and track green investments and finance	Guide investors, companies, issuers toward a green economy	Define activities that reduce GHG emissions to achieve the climate change mitigation objectives
Paris Agreement, SDGs	SDGs, NDC, Country Development Plans	UN Environment Inquiry; Paris Agreement; SDGs	NDC; National Environmental Objectives; Green Industry Catalogue	NDC; SDGs; National Policy on Climate Change (PNCC)	EU climate & energy targets 2030; European Green Deal	Paris Agreement; SDGs	Alignment with global standards and national policies, such as Paris Agreement, NDC, SDGs, and country development plans.	Ecological Code of Kazakhstan	Paris Agreement; SDGs	Paris Agreement, SDGs, National Green Development Policy	NDC, SDGs, National policies and priorities.	NDC, National, Climate / Env Plans, industry guidance	Paris Agreement, NDC, Climate Change Master Plan (2015-2050)

Defining taxonomy alignment

There is variation among taxonomies between using a whitelist of sustainable activities or relying on the concept of substantial contribution supported by technical criteria.

Performance thresholds are implemented mostly with pass lists, which means an activity must meet the performance criteria in order to be aligned.

Three countries and the ASEAN taxonomy use a traffic light system, providing a way to evaluate transition activities, namely activities that have credible plans to transition over time to become green.

ASEAN	BANGLADESH	BRAZIL (Industry-led)	CHINA	COLOMBIA	EU	GEORGIA	INDONESIA	KAZAKHSTAN	MEXICO	MONGOLIA	SOUTH AFRICA	SRI LANKA	THAILAND
Substantial Contribution	Substantial contribution (SFT) and National Standards (GT)	Substantial contribution	Whitelist and technical criteria	Substantial contribution	Substantial Contribution	Whitelist	Substantial contribution; Aligned with ASEAN Taxonomy	Whitelist	Substantial Contribution	Whitelist	Substantial contribution	Whitelist and substantial contribution	Substantial contribution
Traffic Light and Remedial Measures to Transition	Pass list	Traffic light and Pass list	Pass list	Pass list	Pass list	Pass list	Traffic light: "Green", "Transition", and "Unqualified" classification	Pass list	Pass list	Pass list	Pass list	Pass List	Traffic light and Transition pathways

Scope of sustainability topics

The 12 countries assessed for this toolkit all have taxonomies that focus on green assets and activities, and most include activities that enable green and environmental benefits. Social and SDG taxonomies are starting to emerge. Some taxonomies have a list of activities that automatically exclude them as unsustainable.

	ASEAN	BANGLADESH	BRAZIL	CHINA	COLOMBIA	EU	GEORGIA	INDONESIA	KAZAKHSTAN	MEXICO	MONGOLIA	SOUTH AFRICA	SRI LANKA	THAILAND
Green assets / activities	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes
Activities enabling green	Yes	Yes	Yes	Yes	Yes	Yes	No	Yes	Limited	Only for climate adaptation	Yes	Yes	Limited	No
Transition activities	Yes	No	Yes	No	Yes	Yes	No	Yes	Yes; Performance thresholds	No	Yes	Yes	Yes	Yes
Social taxonomy	No	Yes	Yes	No	No	No	Yes	Yes	No	Yes	No	No	No	No
Unsustainable activities	Yes	Yes	Yes	Yes (Green Credit)	Yes	Contemplated	No	Yes	No	No	No	No	No	No
Activities related to the Sustainable Development Goals (SDGs)	No	No	No	Yes	No	No	No	Yes	No	No	Yes	No	No	No

Implementation

Most taxonomies are voluntary. A few countries — Bangladesh, EU, Georgia, Indonesia, and Mongolia, and China for green bond issuances — have implemented mandatory requirements. Implementation is mainly through disclosure requirements, either as part of issuing a financial product or through a broader disclosure framework for financial institutions and/or companies. The use of independent verification is often encouraged, but **assurance of taxonomy alignment is an emerging field, and more guidance is needed from the regulator in most jurisdictions.**

	ASEAN	BANGLADESH	BRAZIL (industry-led)	CHINA	COLOMBIA	EU	GEORGIA	INDONESIA	KAZAKHSTAN	MEXICO	MONGOLIA	SOUTH AFRICA	SRI LANKA	THAILAND
Local entities required /encouraged to report on taxonomy alignment?	N/A	Yes, required for banks and Fis	Fis, encouraged	Yes, through green bonds disclosure and green credit statistics for banks	Yes, indirectly through other regulation	Required	Banks required to report on GSS loan categories	Yes, for GSS, in progress	N/A	Encouraged; regulation under consideration	Yes, indirectly through green regulation	Required for taxonomy alignment. Impact reporting encouraged	Yes, encouraged	Yes, encouraged
Synergies with corporate disclosure	N/A	Yes	Yes	Yes	Yes; reference for green portfolio disclosure; transparency rules for investment products	Yes	N/A	Yes	N/A	Yes	Yes, stock exchange reporting requirement	Limited; stock exchange voluntary guidance; draft central bank disclosure requirements for banks and insurance	No	No
Link to financial instrument	N/A	Yes	Yes, suggested use	Yes	Yes	Yes	Separate framework for GSS Bonds	Yes, through disclosure and monitoring	Yes	Regulation under consideration	Yes, a main objective	Yes	No	No
Role of independent verification, second party opinion (SPO)	N/A	N/A	Suggested user	Indirect, through Green Bonds	Encouraged	Required for specific activities	Suggested users	Verification & second party opinion (SPO) encouraged, particularly for carbon capture	Required for subsidized loans and bonds	Suggested	Suggested use	Recommended	Indirect, through green bonds	N/A

Process for creation and revision

Most country taxonomies are in stage 1 of development and implementation, and describe in detail the process of development, including stakeholder consultation. Mongolia and South Africa are good examples of national stakeholder engagement and Indonesia is an excellent model for international peer learning.

However, only a few taxonomies currently address the process for future additions, revisions, or update. An exception is China, which has gone through several revisions and harmonization of its various green catalogues.

	ASEAN	BANGLADESH	BRAZIL	CHINA	COLOMBIA	EU	GEORGIA	INDONESIA	KAZAKHSTAN	MEXICO	MONGOLIA	SOUTH AFRICA	SRI LANKA	THAILAND
Transparent process to create and revise the taxonomy	Yes	Yes	Yes, for creation, not for revision	Coordination of ministries and agencies	Yes	Yes	Yes	Yes	No	Yes	Yes	Yes	Yes	Yes
Taxonomy subject to peer reviews and stakeholder consultation	Yes	Yes	Yes	Indirectly	Yes	Yes	Yes	Yes	No	Yes	Yes	Yes	Yes	Yes
Stage of taxonomy revision	Version 2	Version 1	Version 1	Version 4	Version 1	Stage 1	Version 1	Version 2	Version 1	Version 1	Version 2	Version 1	Version 1	Version 1
Pre-determined intervals for revision	No	No	No	Yes	Yes	No	Yes	No	No	No	Yes	Yes	Yes	Yes

Mechanisms to manage negative outcomes or harm

The principle of **Do No Significant Harm (DNSH)** has grown in popularity and is now used in most taxonomies. DNSH refers to the concept that achieving one taxonomy objective shouldn't come at the expense of the other taxonomy objectives. There are some overlaps with traditional do-no-harm approaches used by development finance institutions and responsible investors. However, DNSH often requires additional due diligence and risk assessment. The principle is also applied slightly differently across jurisdictions.

Most taxonomies increasingly include **minimum social safeguards (MSS)**. These commonly cover labor practices and human rights. Some countries are starting to include protection of communities, vulnerable groups, and indigenous peoples.

Due to the complexities in assessing and verifying DNSH and MSS, some taxonomies focus on requiring compliance with **national regulations or ESG guidelines**.

	ASEAN	BANGLADESH	BRAZIL	CHINA	COLOMBIA	EU	GEORGIA	INDONESIA	KAZAKHSTAN	MEXICO	MONGOLIA	SOUTH AFRICA	SRI LANKA	THAILAND
Mechanism to prevent specific harm to other taxonomy objectives (DNSH)	Yes, DNSH to other objectives	Yes, DNSH to other objectives	No	No	Yes	Yes, DNSH to other objectives	No	Yes, DNSH	No	Yes	No	Yes	Yes	Yes (3 years grace period to comply – action plan required)
Mechanisms to ensure minimum environmental, social and/or governance safeguards	Yes, additional criteria for "Social Aspects" in V2	Yes, minimum social and governance safeguards	Partial, prudential focus on Environmental Risk Exposure	Yes, requirement to comply with safety, environmental, and quality regulations	Yes, MSS in line with local regulations and social management system aligned with IFC PSs	Yes, MSS	Yes, Addressed through separate ESG Guidelines for banks	Yes, labor, human rights, health & safety, community rights, aligned with ASEAN – different criteria for MSMEs	No	Yes, MSS and Gender Index (Inc. Decent Work, Well-being and Social Inclusion indicators)	Yes, minimum E&S risk management in line with Mongolia Sustainable Finance Principles	Yes, MSS	No, but expectation to comply with regulations	Yes, MSS (3 years grace period to comply – action plan required)

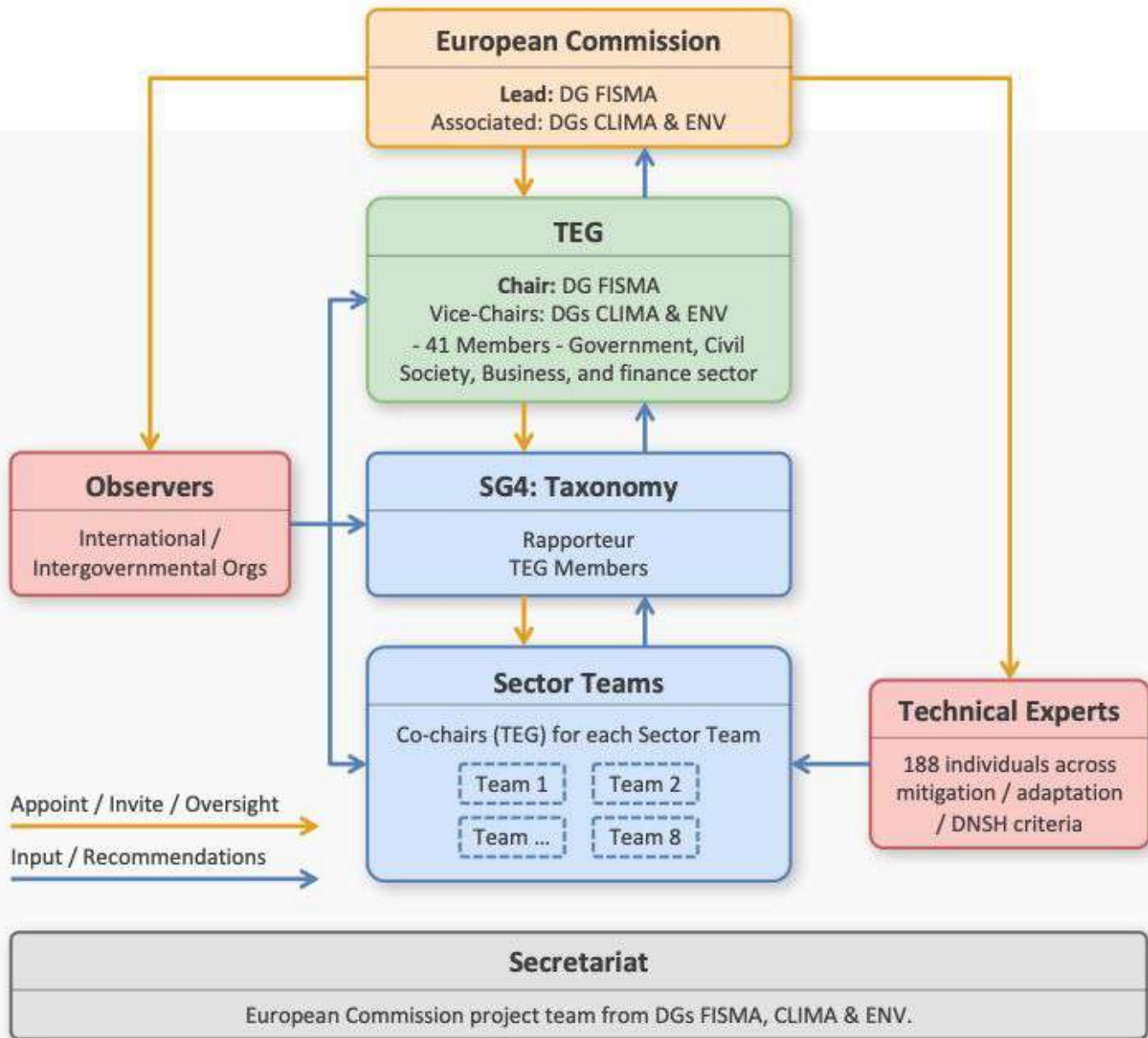
Governance example: EU

In 2018, in response to the policy recommendations of the High-Level Expert Group (HLEG) on Sustainable Finance, the European Commission published the **Action Plan on Sustainable Finance**.

To assist with addressing the HLEG's recommendations, the Commission signaled its intention to establish two informal expert groups, which were officially set up by the **Directorate-General for Financial Stability, Financial Services and Capital Markets Union (FISMA)** in cooperation with the **Directorates-General for Environment (ENV) and Climate-Action (CLIMA)**.

One of the expert groups was the **EU Technical Expert Group on Sustainable Finance** which completed its work and subsequently became the permanent **Platform on Sustainable Finance**.

Groups are subject to the European Commission's horizontal rules on expert groups, and their input is nonbinding. **Decisions are consensus-based where possible, otherwise majority vote**



Source: Institute for Sustainable Finance (2022). *Taxonomy Governance: A Stocktake of International Examples*

E&S safeguards

Most taxonomies also include environmental and/or social safeguard requirements to prevent or minimize unintended negative consequences from taxonomy-aligned activities. The EU introduced the concept of "Do No Significant Harm" to other environmental objectives, which has been widely adopted; as well as **Minimum Social Safeguards (MSS)** which have put the spotlight on labor and human rights.

The EU taxonomy requires that activities Do No Significant Harm and meet minimum safeguards in order to be aligned.



Minimum safeguards ^

1. The minimum safeguards referred to in point (c) of Article 3 shall be procedures implemented by an undertaking that is carrying out an economic activity to ensure the alignment with the OECD Guidelines for Multinational Enterprises and the UN Guiding Principles on Business and Human Rights, including the principles and rights set out in the eight fundamental conventions identified in the Declaration of the International Labour Organisation on Fundamental Principles and Rights at Work and the International Bill of Human Rights.
2. When implementing the procedures referred to in paragraph 1 of this Article, undertakings shall adhere to the principle of 'do no significant harm' referred to in point (17) of Article 2 of Regulation (EU) 2019/2088.

Source: EU (2020), Taxonomy: Final report of the Technical Expert Group on Sustainable Finance

ASEAN Taxonomy V2 includes the guidance below on DNSH, as well as detailed instructions on social safeguards.




1.2 Definition of Significant Harm in the ASEAN Taxonomy

A definition of 'significant harm' in the context of the ASEAN Taxonomy is important as users must work from the same definition and avoid subjective interpretations. With progress in the implementation of the criteria developed in this Annex, it is expected that there will be periodic reviews and updates to keep the document relevant to the prevailing contexts.

An Activity is considered as having done significant harm when, with respect to:

1. **Climate Change Mitigation (EO1):**
 - (i) Activity leads to significant greenhouse gas (GHG) emissions.
2. **Climate Change Adaptation (EO2):**
 - (i) Activity leads to greater adverse impacts of the current and expected future climate on the Activity itself, or on people, nature, or other assets; or
 - (ii) Activity fails to adequately assess, consider and manage key climate risks affecting the Activity.
3. **Protection of Healthy Ecosystem and Biodiversity (EO3):**
 - (i) Activity is significantly detrimental to the good condition and resilience of ecosystems;
 - (ii) Activity encroaches upon ecosystems; or
 - (iii) Activity is detrimental to the conservation status of habitats and species.
4. **Promotion of Resource Resilience and Transition to Circular Economy (EO4):**
 - (i) Activity leads to significant inefficiencies in the use of materials or the direct or indirect use of natural resources compared to what is technically and economically feasible in that industry; or
 - (ii) Activity significantly increases the generation, incineration, or disposal of waste, or if waste disposal may cause significant and/or long-term environmental harm.

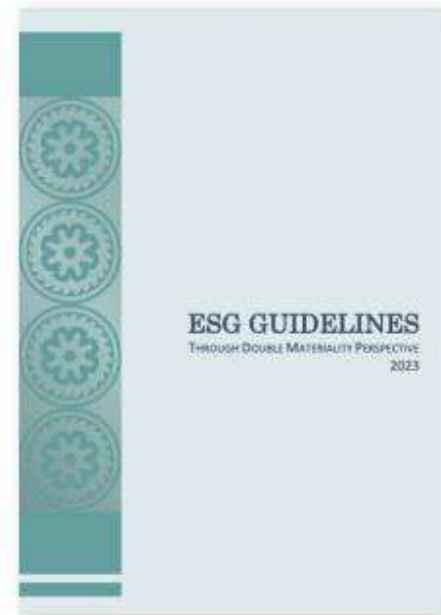
Table 7: Key Social Aspects

Social Aspects	Definition
 Promotion and Protection of Human Rights	Promotion of human rights and fundamental freedoms, in line with the ASEAN Human Rights Declaration (AHRD) and the Phnom Penh Statement on the Adoption of the AHRD (ASEAN, 2012).
 Prevention of Forced Labour and Protection of Children's Rights	Promotion of labour rights and prohibition of forced labour, including but not limited to exploitation, trafficking in persons, violence and abuse, in line with the ASEAN Declaration on the Protection of the Rights of Migrant Workers and the ASEAN Consensus on the Protection and Promotion of Rights of Migrant Workers (ASEAN, 2012).
 Impact on People living Close to Investments	Management of investment-related impacts to people (including children) living in at-risk areas by encouraging inclusive and targeted measures to reduce the impact of investments on vulnerable populations and strengthen institutional capacity to address the needs of people affected, in line with the ASEAN Declaration on Strengthening Social Protection (ASEAN, 2013).

Source: ASEAN Taxonomy for Sustainable Finance, Version 2, 2023



National Bank of Georgia introduced ESG Guidelines in 2023 which guide banks on risk management and apply to all taxonomy activities



EU Taxonomy activities – example of DNSH guidance

The EU taxonomy provides detailed guidance for each activity on what is expected in terms of DNSH requirements.

(2) Climate change adaptation	The activity complies with the criteria set out in Appendix A to this Annex.
(3) Sustainable use and protection of water and marine resources	N/A
(4) Transition to a circular economy	The activity assesses availability of and, where feasible, uses equipment and components of high durability and recyclability and that are easy to dismantle and refurbish.
(5) Pollution prevention and control	N/A
(6) Protection and restoration of biodiversity and ecosystems	The activity complies with the criteria set out in Appendix D to this Annex.

A climate risk and vulnerability assessment is done and risks managed

Environmental Impact Assessment (EIA) or screening has been completed in accordance with Directive 2011/92/EU and measures implemented

Source: Official Journal of the European Union, Commission Delegated regulation (EU) 2021/2139 of 4 June 2021, page 63.

Collaborate to align core taxonomy activities: EU-China Common Ground Taxonomy

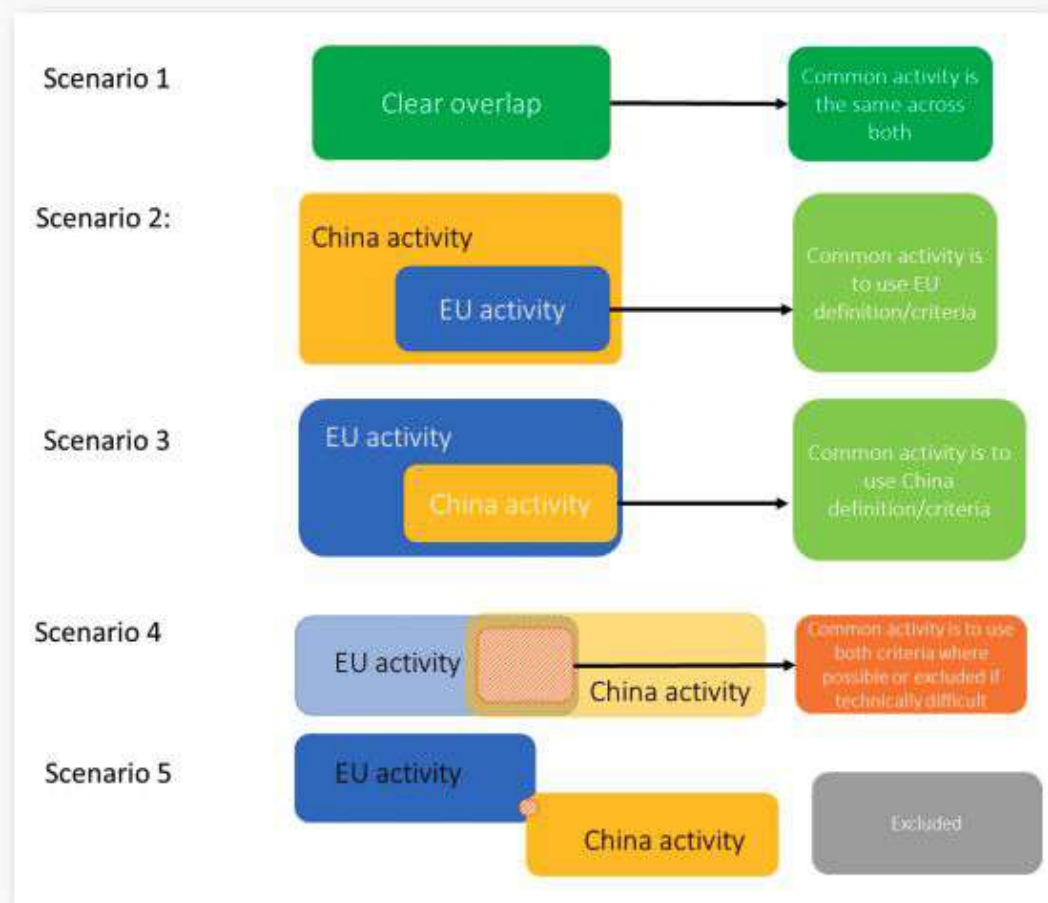
The **Common Ground Taxonomy (CGT)** is the result of a collaboration between the EU and China under the **International Platform for Sustainable Finance (IPSF)**.

It puts forward areas of commonality and differences between the EU and China's green taxonomies and will be expanded over time.

It only covers areas that are in the current scope of both taxonomies and **currently only addresses the objective of climate mitigation**.

DNSH, MSS and other safeguards are not covered.

It puts forward the criteria that are compliant in both jurisdictions and does not entail any legal implications in either jurisdiction



Source: IPSF (2022), Common Ground Taxonomy – Climate Change Mitigation

International Platform on Sustainable Finance

Common Ground Taxonomy – Climate Change Mitigation

Illustration report

IPSF Taxonomy Working Group
Co-chaired by the EU and China
3 June 2022

[Available here](#)

THANK YOU FOR LISTENING!

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LinkedIn: [EuroCham Vietnam Sustainable Finance Sector Committee \(SFSC\)](#)