

The need for a common language in Green Finance

Towards a standard-neutral taxonomy for the environmental use of proceeds

Extending classification of objectives and activities
for a shared market-based measurement of environmental impact and risk

Phase II Report of Joint Research and Action

by

European Investment Bank
Green Finance Committee of China Society for Finance and Banking

4 December 2018

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Table of Contents

European Investment Bank Preface	3
China Green Finance Committee Preface	4
Summary	5
1. Status Quo: Comparison of Green Standards in the White Paper Phase I.....	7
2. Progress since COP23 in China and the EU.....	8
2.1 China: Moving Towards a Unified National Green Industry Standard.....	8
2.2 EU: Moving Towards a Unified EU Sustainability Taxonomy	10
3. Developing a Common Language for Green Bonds	12
3.1 People’s Bank of China.....	12
3.2 Green Finance Committee of China Society for Finance and Banking	12
3.3 European Investment Bank	15
4. Conclusions and Recommendations for the Way Forward	18
Authors and Contributing Institutions.....	19
ANNEX 1: HLEG Sustainability Taxonomy Framework.....	22
ANNEX 2: EU Sustainability Requirements	23
ANNEX 3: TEG-Timeline for Taxonomy Consultations	23
ANNEX 4: GBP WG on Green Projects Eligibility: Core Results of Clarification Process by EIB and Rabobank	24
ANNEX 5: GBP Use of Proceeds, 2018 vs. 2017	27
ANNEX 6: Creation of a new Sustainability Funding Team at EIB.....	29
ANNEX 7: Use of Proceeds for Sustainability Awareness Bonds	30
ANNEX 8: Use of Proceeds for New Climate Awareness Bonds	31
ANNEX 9: Exemplary Rearrangement of GBP-Activities by GBP-Objectives	32
ANNEX 10: High-level Equivalences Across Classification Standards.....	33

European Investment Bank Preface

In July 2007, in congruence with the Berlin Declaration and the European Union's (EU's) Energy Action Plan, the EIB issued its first Climate Awareness Bond (CAB), the world's first green bond, with a focus on renewable energy and energy efficiency. The goal was to increase EIB's accountability through precise eligibility criteria, timely disbursement monitoring, transparent impact assessment.

In September 2018, EIB launched its first Sustainability Awareness Bond (SAB), which complements CABs by extending the same accountability from climate action to lending in further areas of environmental and social sustainability. The transaction is relevant on three major accounts:

- It links the use of proceeds with objectives, rather than activities;
- It takes an open-ended approach to the eligibility of objectives and activities;
- It links such eligibility with the developments of EU legislation on sustainable finance.

The SAB is thus symptomatic of important structural changes that have intervened since publication of the first edition of this White Paper (WP) at COP23. A key step forward has been the European Commission's (EC's) *Action Plan on Financing Sustainable Growth*, followed by the *Regulation proposal on the establishment of a framework to facilitate sustainable investment*.

In particular, the EC's decision to develop an official sustainability taxonomy of economic activities - by way of Regulation rather than Directive - is a welcome game-changer for market participants like EIB. It is bound to reduce uncertainty, create a level playing field among competitors and kick-start a reclassification of all economic activities in the EU for the clarification of which activities can receive allocations from sustainability funding without reputational risk. This will grow the volume of issuance and improve the efficiency of capital allocation at the service of sustainable development.

The EC classification will be based on economic activities' contribution to clearly defined objectives supporting the UN 2030 agenda (SDGs) and the Paris Agreement. For this purpose, the EC aims to establish consensus around internationally comparable impact indicators, in line with the approach proposed by the G20 Green Finance Study Group in 2016, and to specify significance thresholds for clear reference. A Technical Expert Group on sustainable finance (TEG) has been created for this purpose and is bound to deliver a first taxonomy for climate change mitigation and adaptation by June 2019. EIB is a TEG-member and contributes directly to the subgroups on taxonomy and green bond standard.

This approach retains the recommendations of the EC's High-Level Expert Group on sustainable finance (HLEG), to which EIB contributed - on the basis of its cooperation with the China Green Finance Committee (CGFC), its coordination of the MDB-expert group on Climate Change Mitigation Finance Tracking, and its green bond issuance - a technical showcase for climate change mitigation.

The objective is to improve the functioning of mainstream capital markets in favour of sustainability. Practical implementation requires issuance of sustainability bonds that make use of the agreed classification and impact measurement instruments as soon as they are made available by the policymakers. SABs serve this endeavour and so will new CABs currently under development.

This endeavour extends beyond EU borders. Cross-border issuance requires the translation of the EU issuers' classification standard in the non-EU investors' classification standards, and vice versa. The ongoing work behind this White Paper should help certify compliance of EU's screening criteria with the China Catalogue, facilitating authorization of EU-issuance in China by Chinese regulators. The same should apply to Chinese issuance in Europe once the EU Catalogue becomes available. EIB intends to test this principle on the ground and has decided to issue its first-ever onshore RMB-denominated bond in **green** format.

The recent *EU-China Leaders' Statement on Climate Change and Clean Energy* commits China and the EU to communicating, by 2020, long-term low greenhouse gas emission development strategies as foreseen in the Paris Agreement, and underlines the need for green finance to drive the transition to a low emission and climate resilient economy. EIB's issuance plans are an open declaration of intent in this context.

Jonathan Taylor, Vice President, European Investment Bank

China Green Finance Committee Preface

Greening global capital markets requires a common language for green bonds. This is increasingly important from a Chinese perspective, since the maturing national green bond market is experiencing a rapid expansion of cross-border issuance and investing as well. As similar trends are seen across global markets, greater compatibility of standards is essential for seamless international integration. With EU and China being two of the biggest green bond markets globally, developing compatibility between the two can set a precedent for harmonization on a global scale. This is what this White Paper contributes to.

This ambition is part of China's ambitious agenda of greening the financial system at home and abroad. Domestically, China has already achieved remarkable success in rapidly expanding its green finance market. In August 2016, with the approval of the State Council, the People's Bank of China (PBOC) and six other ministries jointly issued the 'Guidelines for Establishing the Green Financial System', providing a comprehensive and overarching framework for developing green finance. These guidelines address the green aspects of credit, securities markets, funds, PPPs, insurance, emission rights trading, local initiatives, international cooperation, as well as risk assessment. Internationally, China is actively advocating for the global development of green finance. Under China's presidency of the G20, green finance became a key theme at the G20 agenda for the first time. The G20 Green Finance Study Group was launched as part of this effort to support the G20's goal of strong, sustainable, and balanced growth. This initiative taken by China has been continued through the G20 summit in Hamburg and further into the G20 meeting in Argentina. As exemplified by this White Paper, China sees the EU as a strategic partner in promoting green finance internationally, and looks forward to continuing the joint efforts towards environmental sustainability in the future.

On green bonds specifically, a number of standards exist without a clear method for comparison. Started in the spring of 2017, the joint work of the Green Finance Committee of China Society for Finance and Banking (launched by the PBOC in 2015) and the European Investment Bank aims to provide a basis for future international cooperation on improving green finance definitions and standards with a view to facilitating cross-border green capital flows. As the first step in this effort, a White Paper was launched at COP23 providing a comparative study of green bond standards used by China, EIB and MDBs. This White Paper provides a second step, by analyzing the last year's progress, and by setting down a recommended pathway for the future. In the process of harmonizing green bond standards, we hope the White Paper can provide a common reference point for discussion for a multitude of stakeholder at a global scale. By working to develop a 'Rosetta Stone' of green bond categories, the White Paper assists market actors to make better informed decisions, thereby helping the realization of environmental policy goals.

At the time we launch this White Paper, the CGFC and EIB welcome all stakeholders to participate in the efforts for scaling up the green bond market globally, and to jointly contribute to sustainable development for all.

Ma Jun, Chairman of CGFC and Member of the PBOC Monetary Policy Committee

Summary

China and the EU consider climate action and the clean energy transition an imperative and have confirmed their commitments under the Paris Agreement. They share the global vision to make financial flows consistent with a pathway towards low greenhouse gas emission and climate-resilient development. They agree on the need for sustainable investment and green finance to drive the transition. They are increasingly coordinating their actions to implement the 2016 recommendations of the G20 on Green Finance.

The 2016 G20 Green Finance Synthesis Report¹ stated that:

- *the lack of clarity as to what constitutes green finance activities and products (such as green loans and green bonds) can be an obstacle for investors, companies and banks seeking to identify opportunities for green investing; and*
- *more clarity about green finance definitions is demanded from the market and policy makers, although it does not require a ‘one size fits all’ approach. Some internationally comparable indicators are also useful in facilitating cross-border and cross-market green investment.*

In March 2017, at a conference co-arranged by People’s Bank of China and the National Association of Financial Market Institutional Investors (NAFMII), CGFC and EIB addressed this challenge and announced that they would cooperate to provide a logical framework for initiatives that could create momentum for harmonizing green finance standards. During COP 23, EIB and CGFC published a first joint White Paper on the need for a common language in green finance, laying the practical and conceptual foundations of their initiative. This second edition of the White Paper entails a progress report, in both policy and capital markets space, and puts in perspective concrete new steps for 2019.

With regard to policy,

- In China, harmonization of existing green bond standards is already underway: PBOC, China Banking and Insurance Regulatory Commission (CBIRC) and China Securities Regulatory Commission (CSRC) are working together on a Green Finance Standardization Program under the umbrella of the ‘Development Plan for Building the Standardization System for the Finance Sector (2016-2020)’, launched in June 2017. PBOC, NAFMII and other stakeholders have come forth with clear and detailed regulations on issuance, duration management, and third-party certification of green bonds. Meanwhile, they have set up the Green Bond Standard Committee. Most importantly, together with PBOC and other Central Ministries, the National Development and Reform Commission (NDRC) is about to publish a ‘Green Industry Catalogue’ that will provide a single reference platform for the classification of the activities eligible for allocations from the Chinese green bonds, leading to a closer integration of green finance and green economy.
- In Europe, the EC has adopted an action plan on financing sustainable growth, which recognizes that the establishment of a unified EU classification system is the most important and urgent action. A technical expert group has been formed by the EC to establish how to assess whether an economic activity is environmentally sustainable in order to determine the environmental sustainability of an investment. The EU sustainability taxonomy will be made binding on member states via regulations and thus immediately apply in national space. A first EU taxonomy for climate change mitigation and adaptation is due by June 2019.

With regard to capital markets:

- CGFC, under coordination of PBOC’s Research Bureau, has continued to shape the debate on green finance in China with the arrangement of a number of research outputs and stakeholders’ events related to green bonds. At the same time, it has worked to establish an active interface between national and international thought-leadership, both via the organization of high-level events and *ad hoc* research

¹ http://unepinquiry.org/wp-content/uploads/2016/09/Synthesis_Report_Full_EN.pdf

The need for a common language in Green Finance

Extending classification of objectives and activities for a shared market-based measurement of environmental impact and risk

reports. China's green bond market has expanded rapidly, and both by number of issuances and total scale, China remains one of the world's largest bond markets. Furthermore, we are seeing an increasing number of Chinese organizations issuing green bonds outside China, and simultaneously an increasing interest from non-Chinese organizations in issuing green panda bonds.

- EIB, under leadership of its capital market experts, has ensured synergy across its cooperation with CGFC, its sustainability advice to the EC within HLEG and TEG, its coordination of the MDB-expert group on climate mitigation finance tracking, its coordination of the Green Bond Principles Working Group on Green Projects Eligibility, and its green bond issuance. In September 2018, the Bank issued the first Sustainability Awareness Bond, extending green bond transparency to a broader spectrum of sustainability objectives and activities, and linking SAB-eligibility with the TEG-criteria to be established.

Unless followed by actions, the Paris Agreement will not deliver on its target. The pragmatic objective of the CGFC-EIB ongoing work on taxonomy is the establishment of a reference platform that facilitates China's green bond issuance in the EU and EU's green bond issuance in China.

Once both the NDRC's 'Green Industry Catalogue' and the EU TEG's 'Taxonomy' have been published, it will be possible to establish a solid platform for transparent comparison between the two, taking forward the work already performed on the PBOC- and MDB-IDFC standards last year. On this basis, the comparison should produce clearer, more comprehensive, and more readily usable results.

The core recommendation of this second edition of the White Paper, therefore, is that Phase III of the CGFC-EIB joint research project develops a clear framework for the mutual translation of China and EU climate mitigation standards by COP25.

Mindful of this objective, EIB has decided to redraft the Use of Proceeds section in the Climate Awareness Bond documentation to include, in addition to renewable energy and energy efficiency, also other activities contributing substantially to climate change mitigation. In the future, allocations will be to *'EIB's lending to activities contributing to this purpose through means in line with evolving EU sustainable finance legislation and the related technical expert group conclusions'*.

The new documentation will be inaugurated in early 2019. CAB-issuance in China would then offer Chinese and EU Regulators the opportunity to establish an effective and cooperative framework for cross-border green bond issuance, putting CGFC-EIB work on a tangible footing and extending its reference value for the benefit of both Chinese and European capital market participants.

1. Status Quo: Comparison of Green Standards in the White Paper Phase I

The joint work on green bond standards between the China's Green Finance Committee, launched by the People's Bank of China in 2015, and the European Investment Bank was started in early 2017. As both a forum for high-level discussion as well as occasion for joint statements, this work takes a long-term approach to reaching the harmonization goal, with yearly progress reports. Ultimately the joint work aims to provide a basis for future international cooperation on improving green finance definitions and standards with a view to facilitating cross-border green capital flows. As the first step in this effort, a White Paper was launched at COP23 providing a comparative study of project classification standards taken as reference by China, EIB and MDBs for their green bond standards.

Internationally, a number of green bond standards exist without a clear method for comparison. As a basis for developing greater harmony, the White Paper Phase I provided a scheme on the basis of which the Chinese Green Bond Endorsed Project Catalogue (China Catalogue), the project eligibility criteria of EIB's Climate Awareness Bonds (a sub-set of EIB's lending criteria), and the MDB-IDFC Common Principles for Climate Mitigation Finance Tracking become conceptually compatible. These three standards were chosen as these represent core applied standards for the classification of activities underlying green bonds globally. The White Paper proposed the development of a 'translation device' or 'Rosetta Stone' using a universal taxonomy of environmental activities for the comparison of classifications and standards, starting with climate change mitigation. Regarding specifically the comparison of standards, the technical conclusions of the paper were:

1. When it comes to the **standards' scope**, the Chinese, MDB-IDFC, and EIB standards use different categories for the classification of the underlying assets. While the Chinese green bond catalogue, which is largely consistent with the Green Bond Principles (GBP), has a broader scope of green, covering 'environmental protection' among others, the MDB-IDFC and EIB standards are focused on climate change. However, both standards include areas not included in the other. Therefore, direct comparison at the first stage of this study is taking place in the area of climate mitigation.

2. Regarding the **Chinese standard**, within climate change mitigation, four categories are not included in the MDB-IDFC standard, namely *energy saving on greenfield facility construction for industries with national energy consumption allowance, clean utilization of coal, ultra-high voltage grid infrastructure, as well as urban underground pipeline projects*. On the other hand, within the broader scope of the Chinese standard, some items outside the MDB-IDFC standard are included namely *environmental restoration projects, coal washing and processing for the purpose of clean utilization of coal, cleaner gasoline and diesel, and a few aspects of ecological protection and climate change adaptation*. These differences are similar between the Chinese and the EIB standard.

3. When it comes to the **EIB standard**, as climate change mitigation, i.e. 'low carbon', is the scope of both the MDB-IDFC and the EIB standard, the difference between the two lies in what specific categories to cover within such scope. Here the analysis finds that the EIB lending standard is different from the MDB-IDFC standard in its inclusion of *nuclear energy*.² This difference also exists towards the Chinese standard, which does not include nuclear energy either.

4. The **MDB-IDFC standard** further includes a number of categories not included in the Chinese or EIB standard. As opposed to the Chinese standard, the MDB-IDFC standard specifically includes *renewable energy power plant retrofits, wind-driven pumping systems, energy audits to end-users, carbon capture and storage, non-motorized transport, projects producing low carbon components, as well as a number of aspects of technical assistance*. Lastly, the MDB-IDFC standard also includes categories not included in the EIB standard, namely *energy efficiency in thermal power stations (coal³)*.

² Nuclear energy is however not eligible for CAB-allocation.

³ Energy efficiency in conventional coal-fired power plants is ineligible for EIB unless it meets EPS and is in all cases not counted as Climate Mitigation.

2. Progress since COP23 in China and the EU

2.1 China: Moving Towards a Unified National Green Industry Standard

China's green bond standards are currently undergoing harmonization. This is part of a larger effort on both harmonization of practices and standards in the financial system at large, as well as part of harmonization definitions of green industries for all purposes.

- **The Green Finance Standardization Program has made substantial progress.** The plan for standardization of the financial system was launched in June 2017 by the People's Bank of China, the China Banking and Insurance Regulatory Commission, the China Securities Regulatory Commission and the Standardization Administration of China and is called the 'Development Plan for Building the Standardization System for the Finance Sector (2016-2020)'. Under the leadership of PBOC, the green finance standardization program of the plan is carried forward, among which green the bond project catalogue and the green bond credit rating standard are undergoing revision.
- **Regulations for green bonds issuance have been updated.** PBOC, NAFMII and other stakeholders have set up Green Bond Standard Committee. Specifically, the PBOC, CSRC, the Shanghai Stock Exchange, and other relevant departments have come forth with clear and detailed regulations on issuance, duration management, and third-party certification of green bonds and green securities. Such updates are important to provide a regulatory environment that dynamically supports the current market circumstances. Additionally, the updates provide an increasingly clear and standardised green bond transaction process, lowering the transaction costs both on the issuer and investor sides.
- **A national 'Green Industry Catalogue' is expected to be published in the near future.** Together with PBOC and other Ministries, the plan for defining green industries in a 'Green Industry Catalogue' is undertaken by the National Development and Reform Commission. At the moment, the NDRC's 'Green Industry Catalogue' is in the final stages of discussion and approval and has been awaited by green finance stakeholders for the last months. Once the catalogue is out, all green-related standards will have to be based on the catalogue's definitions, including for green finance in general and green bonds in particular. This may not mean that all standards will be same, but that they have to include the same scope as the 'Green Industry Catalogue', while individually having different categories. This creates a nation-wide fundamental standard, providing clearer information for both domestic and international financial institutions. As such, it will require an update of the use of proceeds classification of the green bond standards, but may keep the same regulators for each type of green bonds.

Consequently, as of November 2018, China's green bond standards are still based on the below policy documents and regulators shown in table 1 below. As such, the use of proceeds classifications are based on the CGFC's 'Green Bond Endorsed Project Catalogue' as well as the 12 types of the NDRC's 'Guidelines for Issuing Green Bonds'.

Table 1: Overview of China's Green Bond Regulations

Types of Green Bonds	Green Financial Bond	Green Debt Financing Instrument	Green Corporate Bond		Green Enterprise Bond	
Regulating Actors	PBOC	NAFMII	Shanghai Securities Exchange	Shenzhen Securities Exchange	NDRC	
Policy Documents & Release dates	PBOC announcement no. 39 22/12/2015	NAFMII, guideline for non-financial enterprise green note 22/03/2017	Guidelines to Support Green Corporate Bond Issuance by CSRC 2/3/2017	Announcement no 13 【2016】 by Shanghai Stock Exchange 16/3/2016	Announcement no 206 【2016】 by Shenzhen Stock Exchange 22/4/2016	NDRC no. 3504 31/12/2015
Use of Proceeds Classifications	GB Catalogue	GB Catalogue	GB Catalogue		NDRC catalogue with 12 types ⁴	
Management of proceeds	A specialized account has to be established to clearly track the management of proceeds	A specialized account has to be established to clearly track the management of proceeds	A specialized account has to be established to clearly track the management of proceeds	A specialized account has to be established to clearly track the management of proceeds	Unspecified	
Project evaluation and assessment	Third Party Certification	Third Party Certification	Third Party Certification	Third Party Certification	No need of Third Party Certification, Regulator decides	
Information Disclosure	Has to notify the market on use of proceeds each quarter and last year report of funds using & special auditor report before 30 th April each year as well as reporting to PBOC	Disclose to the market use of proceeds and development of green projects every half year	At least disclosure once a year. A Guidance in preparation		Unspecified	

The Hong Kong Bond Connect further facilitates international investments in green bonds. At the end of 2017 the Hong Kong Bond Connect went live, allowing international investors, including smaller ones, to buy bonds through a Hong Kong-based trustee. This includes both green and regular bonds. This adds a fourth avenue into the Chinese bond market in addition to the QFII (Qualified Foreign Institutional Investor), RQFII (RMB Qualified Foreign Institutional Investor), and CIBM Direct Access schemes. The Hong Kong Bond Connect has since then become international investors' primary channel for investing in the China Interbank Bond Market. This is in particular because it allows investors to use the Hong Kong trading and clearing platform, and to keep their existing legal framework, counterparty arrangements and internal practices. As a sign of its increasing importance, the Hong Kong Bond Connect trading volume reached a total of RMB 738.5 billion from January to October 2018. This development highlights the importance of harmonizing green bond standards, to facilitate international investors buying green bonds issued solely according to Chinese use of proceeds standards. This is different from Chinese issuances abroad which are compatible with both Chinese and a given international standard.

⁴ NDRC is currently in the process of unifying the GB Catalogue with its own Catalogue. This synthesis is expected to be completed in the near future.

The need for a common language in Green Finance

Extending classification of objectives and activities for a shared market-based measurement of environmental impact and risk

2.2 EU: Moving Towards a Unified EU Sustainability Taxonomy

Since the publication of the first edition of this White Paper, the EU has moved forward in four steps, in line with the following WP-recommendations:

I.b.: *reaching consensus on screening criteria and indicators as primary measures of the contribution of each activity to climate change mitigation; and*

I.c.: *extending the analysis to environmental objectives other than climate change mitigation*⁵.

1. **31/01/2018**: Final Report of the High Level Expert Group on Sustainable Finance on *Financing a Sustainable European Economy*⁶.

Recommendation 1 (*Establish and maintain a common sustainability taxonomy at the EU level*) entails a high-level *Sustainability Taxonomy Framework* (see Annex 1), which has the following conceptual features:

- Distinction between *taxonomy* (full list of objectives, activities and impact indicators) and *standard* (objective/activity couplets *plus* thresholds for the related impact indicators);
- Clear separation of policy objectives from economic activities;
- List of policy objectives (horizontal axis) that is compatible with both UNEP Inquiry's conceptual approach to sustainable development, the SDGs and the objectives mentioned in the Green Bond Principles;
- List of economic activities (vertical axis) that is compatible with the MDB-IDFC Common Principles on Climate Mitigation Finance Tracking, other market standards (e.g. Climate Bond Initiative and Standard & Poor's) as well *the most commonly used types of projects supported or expected to be supported by the Green Bond market* listed in the GBPs;
- Idea that measurement of the contribution of economic activities to policy objectives is the condition for effective allocation of capital;
- Idea that comparability of such measurement is essential for both policy and market decisions and requires, in addition to shared lists of activities and objectives (also achievable via conversion tables), shared *screening criteria* and *internationally comparable indicators* for the definition of *ex ante* contribution targets (*screening thresholds*) and the monitoring of their implementation *ex post*.

NB: Comparability does not imply uniformity, and the framework above is rooted in a standard-neutral classification that permits to clarify and compare the priorities embedded in different standards.

2. **07/03/2018**: EC Action Plan on *Financing Sustainable Growth*⁷.

Section 2.1. *A unified classification system for sustainable activities*:

- specifies that *a unified EU classification system - or taxonomy - ... is at this stage the most important and urgent action of this Action Plan*, and

⁵ <http://www.eib.org/attachments/press/white-paper-green-finance-common-language-eib-and-green-finance-committee.pdf>, p. 19

⁶ https://ec.europa.eu/info/sites/info/files/170713-sustainable-finance-report_en.pdf, p. 12

⁷ <https://eur-lex.europa.eu/legal-content/EN/TXT/PDF/?uri=CELEX:52018DC0097&from=EN>

The need for a common language in Green Finance

Extending classification of objectives and activities for a shared market-based measurement of environmental impact and risk

- proposes to proceed with a step-by-step approach, starting with a taxonomy on climate change mitigation and adaptation activities and some environmental activities. As a second step, the taxonomy will cover remaining environmental and social activities, recognising that one aspect of sustainability must not be detrimental to other related risks or objectives.

Section 7. *The way forward* adds that the Commission will promote discussions on this Action Plan in existing fora, such as the Financial Stability Board, the G20, the G7, the United Nations and the International Organisation of Securities Commission (IOSCO).

3. 24/05/2018: Regulation proposal on Establishment of a Framework to Facilitate Sustainable Investment

Art. 1. states that the regulation establishes the criteria for determining whether an economic activity is environmentally sustainable for the purposes of establishing the degree of environmental sustainability of an investment.

Art. 5. lists the following EU environmental objectives: climate change mitigation; climate change adaptation; sustainable use and protection of water and marine resources; transition to a circular economy, waste prevention and recycling; pollution prevention and control; and protection of healthy ecosystems.

Art. 4., summarized in Annex 2, states that the activity has to:

- contribute substantially to one or more of the EU environmental objectives;
- not significantly harm any of the other environmental objectives;
- comply with minimum social safeguards;
- comply with relevant technical screening criteria.

To be noted is the proviso that the regulation needs to be consistent with other Union policies and build on concepts developed, for example, under the Statistical Classification of Economic Activities in the European Community (NACE).

4. 06/2018: Technical Expert Group on Sustainable Finance

In line with the Commission's legislative proposals of May 2018, the European Commission set up a Technical Expert Group on Sustainable Finance to assist it in developing: an EU taxonomy for environmentally sustainable activities; an EU Green Bond Standard; benchmarks for low-carbon investment strategies; and guidance to improve corporate disclosure of climate-related information.

The TEG commenced its work in July 2018 and will operate until June 2019, with a possible extension until year-end 2019. Its 35 members from civil society, academia, business and the finance sector, as well as ten additional members and observers from EU and international public bodies work both through formal plenaries and sub group meetings for each work stream. To ensure transparency, the TEG and the EC are organising targeted and open consultations to provide stakeholder feedback and additional technical expertise in 2018 and 2019.

Specifically, the TEG sub-group on taxonomy is bound to deliver a first report with the detail of its conclusions with regard to climate change mitigation and adaptation by June 2019 and is about to launch an open consultation as well as a call for technical experts with the timeline described in Annex 3.

3. Developing a Common Language for Green Bonds

3.1 People's Bank of China

As the main lead on green finance, the People's Bank of China has made great efforts on policy design, advanced research, related standards, innovative products, local pilots, capacity building, risk management, as well as international cooperation.

- **The PBOC is using innovative policies to incentivize green bonds.** First, at end 2017, the PBOC introduced a green macroprudential assessment (MPA) system where the banks with higher proportion of green loans and banks that have issued green bonds are given higher MPA scores. This could translate into monetary awards in the near future. Secondly, in June 2018, the central bank expanded the guarantee scope of its medium-term lending facility (MLF) to include green finance instruments as suitable collateral. The new types of guarantees include collateral, such as highly rated loans from small companies, agricultural financial bonds, and green bonds. Thirdly, China is also in the process of adopting lower risk weights of green assets on the basis of financial stability considerations of the banking system. So far, no country has lowered their risk weights for green assets mainly because most still do not have a green loan definition and are thereby unable to calculate the default rate on green loans. Vice versa on the funding side, this incentivizes green bond issuance.
- **The ability to promote the development of green finance has been strengthened through the continually increasing involvement of the Research Bureau of the People's Bank of China.** The bureau remains the leading department for the introduction and implementation of green finance policies, and is increasingly ambitious and active in such efforts. It has coordinated research on green finance policies within and across various ministries and commissions, and has been responsible for the arrangement of green finance standardization and the local green finance pilot projects. At the same time, the bureau has organized and participated in capacity building work related to green finance.
- **The PBOC has also played a critical role in the establishment of the Network for Greening the Financial System (NGFS),** which was launched at the Paris One Planet Summit on 12 December 2017. The NGFS is a group of 21 Central Banks and Supervisors and 5 international organizations willing, on a voluntary basis, to contribute to the analysis and management of climate and environment-related risks in the financial sector, and to mobilize mainstream finance to support the transition toward a sustainable economy. Within its first year of existence, the NGFS has already achieved much progress in defining and promoting the implementation of best practices within and outside of the Membership of the NGFS and to develop analytical work on green finance. Its work is built on a range of national and international initiatives responding to the financial risks and opportunities stemming from climate and environment related changes. Its first progress report was launched in October 2018.⁸

3.2 Green Finance Committee of China Society for Finance and Banking

As a central piece in organizing efforts for green finance in China, the CGFC orchestrated a number of research outputs and stakeholder event related to green bonds in 2018. Set up by the PBOC, and with members stemming from government regulations, financial institutions, and independent research organizations, the CGFC remains the key shaping force in greening the financial system in China, as well as for coordinating international cooperation, such as on green bond standards.

⁸ <https://www.banque-france.fr/sites/default/files/media/2018/10/11/818366-ngfs-first-progress-report-20181011.pdf>

The need for a common language in Green Finance

Extending classification of objectives and activities for a shared market-based measurement of environmental impact and risk

In terms of research, the CGFC annual event in April 2018 included the launch and presentation of 14 research outputs from various member organizations. A number of reports were of key relevance to harmonizing international green bond standards:

- ICBC launched a report⁹ on **environmental risk assessment** providing an important piece for giving momentum to developing green finance and for determining what to include as green.
- Similarly, the report on **ESG performance and environmental information disclosure** by the CSRC¹⁰ feeds into the dialogue on what specific economic activities have greater and smaller environmental impacts, and consequently how these should be featured in green standards.
- Furthermore, the research presented by the Pingan Group¹¹ shows how different areas of green are subject to more and less **environmental insurance risk**, indicating how these areas can be weighted and included in green definitions.

The CGFC remains a key driving force as its historical role is cemented into the process of green finance development. CGFC has become an institutionalized and specialized institution with a name and reputation both inside and outside of China. It plays a key role in the construction of China's green finance system. Local branches of CGFC have been established around China. They act as important hubs for preliminary research and support for local green finance practices.

When it comes to international cooperation, the CGFC acts as a facilitator, tying together key institutions in China and abroad to work on a number of green finance issues. Given its authority as coordinator of green finance efforts in China, official international green finance cooperation is most frequently organized under its support. In relation to harmonizing green bond standards, two events in 2018 had a key importance.

The 2018 Beijing international green finance forum included participation of international public and private institutions, and was centered around how to jointly develop green finance globally. Key topics under discussion at the forum were:

- G20 Sustainable Finance Working Group
- Establishing a number of green finance centres around the world,
- How Beijing can be a centre for Chinese expertise on green finance,
- Mobilizing private capital for green finance purposes, as well as
- Innovation in green finance instruments.

This event and its topics provided an important forum for setting the scene for harmonizing global green finance on a number of topics including green bonds.

In October 2018, the first China-France Joint Conference on Green Finance took place in Shanghai. With the support from the PBOC and Banque de France, this conference initiated bilateral cooperation on

⁹ 《环境风险分析》(Environmental Risk Analysis), ICBC

¹⁰ 《ESG 三优投资》(ESG Three Merits Investment)、《上市公司环境信息披露研究报告》(Environmental Information Disclosure of Listed Companies Research Report), China Securities Regulatory Commission

¹¹ 《平安智慧环保解决方案》(Pingan Intelligent Environmental Solutions Planning), Pingan Group

The need for a common language in Green Finance

Extending classification of objectives and activities for a shared market-based measurement of environmental impact and risk

green finance between China and France. Participants from China and France included representatives from both central banks, financial institutions, green companies and academic institutions. European Commission representatives also took part in the discussions. This conference explored topics of mutual interest, including developing the EU green/sustainable taxonomy, promoting environmental/climate information disclosure by financial institutions, exploring feasibility to develop green supporting policy measures, as well as greening investments in the Belt and Road. Such bilateral discussions are critical to create the consensus on both sides to develop compatible green finance standards, considering the 2019 updates in both China and the EU.

The CGFC is closely related to the Center for Finance and Development of Tsinghua University, which is also led by Dr. Ma Jun. The Center sponsors and conducts research and training projects with the aim of addressing practical policy issues in the area of finance and sustainable development. One of the key initiatives of this Center is the Global Green Finance Leadership Program (GFLP), which provides a platform for knowledge sharing on best practices of, and inspiring innovations for, scaling up green and sustainable finance. It builds on the global momentum created by the Paris Agreement, UN SDGs, the G20 Green Finance Study Group and the World Bank Group. The GFLP is co-hosted by the Center for Finance and Development of Tsinghua University, the IFC-supported Sustainable Banking Network (SBN), and China Council for International Cooperation on Environment and Development (CCICED).

Since its inauguration in May 2018, the GFLP has hosted two events and attracted more than 200 participants from 48 countries, mainly developing economies along the Belt and Road, including experts and senior officials from central banks, ministries of finance, financial regulators, ministries of environment and other governmental agencies, as well as international organizations, financial institutions, stock exchanges and NGOs. Participants shared their experiences and insights and discussed future roadmaps for developing green finance policy frameworks. The GFLP has well fulfilled its vision as a platform of capacity building in the area of green finance and has received requests from many developing countries to help build the capacity for their local financial sector.

As a member of the CGFC, the International Institute of Green Finance of the Central University of Finance and Economics is an important provider of research and advice across financial regulations, stakeholders, and instruments. In 2018, the IIGF launched a number of research reports feeding into the process of harmonizing green bond standards.

- China's first **Green Bond book**¹² was launched as part of the Green Finance book series of the CGFC. The book is the result of the joint efforts of the IIGF together with international partners including the Deutsche Gesellschaft für Internationale Zusammenarbeit (GIZ) and the Skandinaviska Enskilda Banken (SEB). It provides comprehensive statistics and analysis of the historical and current layout of the Chinese green bond market.
- IIGF has also provided input on numerous occasions to the NDRC's work on the Green Industry Catalogue, and participated in many of NDRC's related internal discussions.

¹² IIGF (2018). *Green Bond (绿色债券)*

The need for a common language in Green Finance

Extending classification of objectives and activities for a shared market-based measurement of environmental impact and risk

3.3 European Investment Bank

The EIB has appointed as its representative to the HLEG and the TEG its Head of Capital Markets. In these functions, she has thus far been supported by experts from the Energy Department and the Environment, Climate & Social Office in the Projects Directorate, as well as by sustainability funding experts from the Capital Markets Department in the Finance Directorate. These experts are those directly involved in the EIB-CGFC cooperation and the drafting of the White Papers.

After keeping the HLEG informed of the acknowledgements stemming from the EIB-CGFC cooperation and the related market consultations throughout 2017, EIB presented the first edition of the White Paper to the HLEG on 11 November 2017. The report thus qualified and legitimated, from both the project evaluation- and sustainability funding- angles, the technical taxonomy approach that EIB presented to the HLEG, together with a showcase proposal for climate change mitigation, shortly thereafter.

Within the TEG, the EIB contributes both project evaluation expertise (in the taxonomy sub-group) and concrete sustainability funding experience (in the green bond standard sub-group). It is therefore well-positioned to establish the link between the technical and capital market dimensions.

In the taxonomy sub-group, for instance, EIB's project experts have enriched their HLEG-contribution by mapping the HLEG list of activities against the NACE list of economic activities, and vice versa. This has added to the work already performed to support EIB's sustainability funding experts in their coordination of the GBP Working Group (GBP WG) on Green Projects Eligibility. This working group addresses the issues related to the Use of Proceeds section of the GBP.

The GBP is the only *forum* that is expression of the green bond market at large and has proven capable of mediating among different views and interests. It provides a useful reference for the discussion within the TEG-sub-group on green bond standard.

Within this working group, EIB has represented the view that, by reflecting the CGFC-EIB taxonomy approach in the Use of Proceeds section, the GBP could provide capital market practitioners with a useful conceptual and communication framework to:

- think strategically about the classification of their own activities;
- address pragmatically the dialogue with official authorities on the upcoming legislative developments and their international comparison;
- inform on the indicators they use, or intend to use, to measure the impact of their activities on sustainability objectives.

In an initial phase, this would require the clear separation of activities and objectives in the GBP-text and the adoption of a list of activities that could facilitate the comparison of issuers' and investors' choices but also, more generally, the terminologies used by reference classification standards (e.g. China and MDB-IDFC).

Issuers would choose which primary objectives they intend to pursue, the activities selected for that purpose, the indicators envisioned for impact measurement and reporting and any related threshold of their choice. This information would be made public in standardized form prior to issuance for transparent and comparative analysis by investors, external reviewers and policymakers, *ex ante and ex post*. This approach would be mirrored by investors in the definition of their investment guidelines, helping the efficient encounter of supply and demand.

The need for a common language in Green Finance

Extending classification of objectives and activities for a shared market-based measurement of environmental impact and risk

A consultation carried out by the EIB in the context of the GBP WG on Green Projects Eligibility earlier this year showed that a vast majority of market participants validates this approach (see Annex 4). Some changes were already incorporated in the 2017 GBP, as highlighted against the 2016 GBP in Annex 5. The discussion continues within the working group on how to clarify the approach further.

These arrangements, which are neutral vis-à-vis individual standards across multiple jurisdictions, are bound to align policy and market narratives, consolidating the role of green bonds in shedding light on their underlying activities, as well as the GBP's role as the international hub for the comparison of multiple local strategies that all have an impact on goals of global interest.

The EIB can be taken as a test case and litmus for the ongoing discussion. On the lending side, for instance, climate and environment financing facilities already refer to an extended definition of 'green':

1. Climate change, which includes climate change adaptation and, for climate change mitigation, the following activities: Renewable energy and energy efficiency; Afforestation and reforestation; Lower carbon transport; Mitigation in waste and water; Low carbon research, development and innovation; as well as Other activities with substantial reductions in greenhouse gas emissions; and
2. Environmental protection, which includes activities contributing to one or several of the following objectives: Preservation, conservation and protection of natural resources, biodiversity and ecosystems; Sustainable use and management of natural resources, including biodiversity and ecosystems; Restoration of natural resources, biodiversity and ecosystems; Reduction and prevention of pollution; Drinking water and wastewater; Waste management and treatment, recycling, transition towards a circular economy.

EIB's Statute prescribes that EIB's credit policy is conducted in accordance with EU objectives. The clarifications provided by the EU taxonomy will help the steering of EIB's lending activities and define with more precision the perimeter of potential allocations from EIB's sustainability funding, which is designed to provide investors with precise description and monitoring of EIB's lending activities with significant impact on EU environmental and social objectives. In a nutshell, the process initiated by the European Commission to reorient capital towards sustainable investment is bound to have extensive impact on the services of the Bank (project evaluation, lending, funding, risk management).

In order to tune issuance timely on the ongoing legislative developments, EIB has, in the context of a broader reorganisation by product lines of its capital markets department put in place a new Sustainability Funding Team (see Annex 6). Prior to the reorganisation, different funding officers were in charge of sustainability funding in their own currencies. The new team is responsible for this funding in all currencies, which permits a more strategic approach to new issues in the context of the current structural developments.

The first action of the new team was the issuance of a EUR 500m inaugural Sustainability Awareness Bond due May 2026 at the beginning of September 2018. The transaction is relevant on four major accounts:

- It extends green bond transparency to environmental and social objectives beyond climate;
- It links the use of proceeds with objectives, rather than activities;
- It takes an open-ended approach to the eligibility of objectives and activities;
- It links such eligibility with the developments of EU legislation on sustainable finance.

The need for a common language in Green Finance

Extending classification of objectives and activities for a shared market-based measurement of environmental impact and risk

The Use of Proceeds-text in the SAB-documentation is attached in Annex 7. In addition to mirroring the logic adopted by the European Commission, this approach has material practical advantages, notably:

1. The possibility to extend allocations to new objectives and activities over time, as the required EIB procedures and IT-infrastructure are established and tested on the ground¹³;
2. Ongoing fungibility of new and old tranches of SABs despite allocation extensions over time.

The Bank now intends to apply the same objective-based approach to CABs, which so far have had a focus on renewable energy and energy efficiency only. The draft Use of Proceeds section of the new CAB-documentation is attached as Annex 8. The objective will be climate change mitigation, with the possibility to allocate the proceeds to an increasing range of activities as EIB administration adapts to the new classification and impact measurement framework to be gradually established as EU legislation evolves. It is also intended that the administration of proceeds will be upgraded to ensure separate management of the allocations from old and new CABs, so that taps of old CABs continue to be fungible with the old tranches and the existing green curve of the EIB is maintained.

The EIB intends to launch this new CAB-approach in early 2019 with a flagship transaction. Should it be possible to issue this transaction in the domestic interbank market of the PRC (*Panda-CAB*, the first ever panda-issue of the EIB), multiple goals could be pursued, notably:

- a) while the new China- and EU- classification standards are being established, the CGFC-EIB mapping of the China Green Bond Endorsed Project Catalogue described in last year's White Paper could be used as basis to certify CAB-compliance with the China Catalogue;
- b) once the new China- and EU-classification standards have been established, and EIB gradually extends allocations to other activities that are considered sustainable by the EU classification standard, further Panda-CABs and -SABs could test on the ground how the related China and EU-screening criteria actually compare.

This would establish a practice that could then be used by further EU- issuers in China and Chinese issuers in the EU at a later point as well as by policymakers in their increasing cooperation in the field of broader environmental sustainability.

The establishment of an onshore RMB-denominated issuance programme in the PRC would serve this endeavour, proving at the same time the strong cooperation between China and the EU also in the field of mutual audit recognition while the China-EU bilateral audit adequacy assessment is still underway.

The timing is favourable: following the recent publication of the *Interim Measures for the Administration of Bond Issuances by Overseas Issuers in the Chinese Interbank Bond Market* (Joint Announcement of the PBOC and the Ministry of Finance No. 16), the panda-market is currently restarting its activity, and the new rules stand ready for use.

¹³ EIB, for example, has decided to focus its inaugural SAB on four objectives (conservation of natural resources, pollution prevention and control, access to water and sanitation, natural disaster risks management) and three activities (water supply, wastewater collection and treatment, flood protection).

4. Conclusions and Recommendations for the Way Forward

Developing a common language for green finance has made substantial progress over the last year, in terms of tangible, demand-driven capital market actions as well as via programmatic, policy-driven official initiatives.

With new use of proceed standards to be launched both in China and the EU next year, 2019 is expected to be eventful. Once both the NDRC's 'Green Industry Catalogue' and the EU TEG's 'Taxonomy' have been published, it will be possible to establish a solid platform for transparent comparison between the two, taking forward the work already performed on the PBOC- and MDB-IDFC standards last year. On this basis, the comparison should produce clearer, more comprehensive, and more readily usable results.

It would be meaningful that Phase III of the CGFC-EIB joint research develops a clear translation framework between China and EU green standards by COP25, ideally with some EIB sustainability panda-issuance tying the standards together in practice. This would provide the necessary clarity and demonstration effect required to internationalize the Chinese green bond market and establish a baseline for the further harmonization of green bond (therefore: green finance) standards on a global scale.

Another central recommendation for the further development of standards in China and the EU is that they become compatible with the capital market-based approach of the GBP. The clear separation of the GBP exemplary project categories from the GBP objectives and their rearrangement by objective (an example is provided in Annex 9) would provide a market reference for comparing classifications and standards. This in turn, could serve as an embryo of a 'Rosetta Stone' translation device – see a high-level example in Annex 10. Once the China and EU standards can be directly translated based on a device of this kind, it will be easier to add more standards to the framework (MDB-IDFC, Climate Bond Initiative, and others). Ultimately, such a device could be digitalized and disseminated, providing a useful tool for comparing and understanding any green bond use of proceeds standard in its core features.

To secure maximum effectiveness, policy and markets should coordinate their classification efforts within the supranational framework established by the UN and the G20, where MDBs have been vested with a key role in policy implementation. Specifically, MDBs' expertise in green lending, funding and technical assessment can help the definition of credible and consistent impact indicators and their target values across jurisdictions. In the area of climate change mitigation, for example, the MDBs' Common Principles on Climate Mitigation Finance Tracking¹⁴ (CP) have established a platform for discussion among IFIs¹⁵, which may now be used to complement the CP list of activities with shared screening criteria aligned with the goals of the Paris Agreement but tailored to the local circumstances of different jurisdictions. EIB coordinates the dedicated MDB expert group and will aim to create a synergy with its efforts on the market and the EU institutional side.

All of the above will serve the broader multilateral agenda of China and the EU, who have committed to '*significantly intensify their political, technical, economic and scientific cooperation on climate change and clean energy, in view of the necessary world-wide transformation to a resource efficient, sustainable, low greenhouse gas emission and climate resilient economy and society, in the context of sustainable development and poverty eradication*'.¹⁶

¹⁴ http://www.eib.org/attachments/documents/mdb_idfc_mitigation_common_principles_en.pdf

¹⁵ Including AIIB, NDB and CDB, all based in China.

¹⁶ EU-China Leaders' Statement on Climate Change and Clean Energy, item 4.
https://ec.europa.eu/clima/sites/clima/files/news/20180713_statement_en.pdf

Authors and Contributing Institutions

As a China-EU initiative, this and last year's White Papers were jointly authored by the European Investment Bank and the Green Finance Committee of China Society for Finance and Banking. As an executive member institution of CGFC, International Institute of Green Finance at Central University of Finance and Economics makes a substantial contribution to the White Papers.

On the EU side, under the supervision of Eila Kreivi, EIB Head of Capital Markets, Aldo M. Romani, EIB Head of Sustainability Funding, has coordinated EIB's team as well as the market consultations. He and Dominika M. Rosolowska, Sustainability Funding Officer, drafted EIB's contributions to the White Papers. Eugene Howard, Managerial Adviser in Energy, and Nancy Saich, Managerial Adviser in Climate and Environment, mapped the China GB Catalogue as well as market feedbacks on screening criteria last year. Alexander Krauss, Trainee, and Tomomitsu Maruta, Sustainability Funding, shaped the tables in the attachments.

On the China side, under the supervision of Dr. Ma Jun, Chairman of the CGFC and the Co-chair of G20 Sustainable Finance Study Group, Professor Wang Yao and her team have spearheaded the Chinese engagement. Prof. Wang is the Deputy Secretary General of the CGFC and Director General of IIGF. She, Mathias Lund Larsen and their colleagues at IIGF drafted CGFC's contributions to the White Paper, and Cui Ying reviewed the China GB Catalogue mapping.

European Investment Bank

The European Investment Bank was created by the Treaty of Rome in 1958. It is a core instrument of EU's public policy and is owned by the 28 Member States of the European Union. In 2017, the Bank signed around €70bn of financings, making it the largest Multilateral Development Bank globally. Environmental protection and climate change mitigation are core operational priorities for the EIB¹⁷.

In 2007, EIB launched the first green bond. The Bank is the largest multilateral issuer of green bonds to date and chaired the Steering Committee of the Green Bond Principles from 2015 to 2018. Spurring the sustainable growth of the green bond market is a stated objective of EIB's Climate Strategy.

Since 2010, the Bank has had a formal target for the climate action component of its annual lending activity (presently: 25% minimum). An important objective is coherence and comparability of the information tracked and reported. The Bank has thus been working with other international financial institutions (IFIs) towards a harmonised approach to eligibility criteria and GHG-accounting (MDB-IDFC Common Principles for Climate Finance Tracking¹⁸).

The Projects Directorate of the EIB is coordinator of the MDB expert group on climate change mitigation tracking until 2019. One core objective of the CGFC-EIB cooperation on this White Paper is to add a market perspective for this workstream, establishing a direct link between this workstream and the ongoing discussion on green bond taxonomies for a closer dialogue between policy and markets on green finance.

¹⁷ EIB Group Corporate Operational Plan 2017-2019, p. 7, accessible at:

<http://www.eib.org/infocentre/publications/all/operational-plan-2017-2019.htm>

¹⁸ See http://www.eib.org/attachments/documents/mdb_idfc_mitigation_common_principles_en.pdf and http://www.eib.org/attachments/documents/mdb_idfc_adaptation_common_principles_en.pdf

The need for a common language in Green Finance

Extending classification of objectives and activities for a shared market-based measurement of environmental impact and risk

Green Finance Committee of China Society for Finance and Banking

The Green Finance Committee of China Society for Finance and Banking was established in April 2015 with the approval of the People's Bank of China. The committee is a non-for-profit professional organization dedicated to research and coordination of green finance initiatives of member institutions. Its mandate covers developing policy proposals on green finance, promoting innovative green investment and financing products and services, increasing awareness of green investment among institutional investors, strengthening capacity building, and helping to implement green finance policies.

As of November 2018, the Green Finance Committee had about 220 member institutions, including all major Chinese banks and many insurance companies, asset owners and managers, brokers, green companies, third party service providers and research institutions in the area of green finance. The financial assets under management of the member institutions amounts to RMB170 trillion, accounting for roughly 73% of the total assets of China's financial industry. The current chairman of the Green Finance Committee is Dr. Ma Jun, Co-Chair of the G20 Sustainable Finance Study Group, Special Advisor the Governor of the People's Bank of China, and Special Advisor to United Nations Environment on sustainable finance.

In green bonds space, the CGFC has developed China's Green Bond Endorsed Project Catalogue (GB Catalogue) which is used to support the implementation of green bond guidelines by PBOC, the National Association of Financial Market Institutional Investors, Shanghai Stock Exchange and the Shenzhen Stock Exchange. Most of Chinese green bond issuers and all green bond verifiers are members of the CGFC.

CGFC is also promoting the harmonization of different Chinese green bond standards domestically, and has been driving the international cooperation on green finance in many areas. On this China-EU joint research project, the CGFC has established a mobilized support from regulatory authorities, issuers, underwriters, and investors.

The International Institute of Green Finance of the Central University of Finance and Economics (CUFE)

The International Institute of Green Finance of Central University of Finance and Economics is an independent and non-profit think tank established in China in 2016. It conducts research within a range of areas of green finance such as credit, bonds, insurance, carbon-trading, information disclosure, and risk assessment, as well as climate finance, energy finance. The IIGF is specialized in Chinese green finance at a national and local level and additionally conducts research on green finance internationally. The IIGF is based within the Central University of Finance and Economics in Beijing, and is partially financed by donations from Tianfeng Securities. The institute is headed by Prof. Wang Yao, who also serves as Deputy Secretary General of CGFC.

The IIGF works with numerous stakeholders in green finance both within and outside China. Within China, the IIGF is executive member institution of Green Finance Committee of China Society of Finance and Banking and works with the People's Bank of China, the Chinese Ministry of Finance, the National Development and Reform Commission, the Chinese Ministry of Environment, as well as with a number of national, regional and local government institutions, financial institutions, and research organizations. Internationally, the IIGF conducts joint research with organizations such as UNEP, UN PRI, the European Investment Bank, Cambridge University, and the International Institute for Sustainable Development.

Within green bonds the IIGF is working closely with the NDRC, PBOC and the CGFC to develop coherent standards in China. The IIGF further provides research on a number of areas within green bonds nationally and internationally. Lastly, the IIGF promotes and assist in the international integration of green bond

The need for a common language in Green Finance

Extending classification of objectives and activities for a shared market-based measurement of environmental impact and risk standards by launching a Chinese green bond index on the Luxembourg Stock Exchange, and assisting Chinese organizations to launch green bonds abroad.

The need for a common language in Green Finance

Extending classification of objectives and activities for a shared market-based measurement of environmental impact and risk

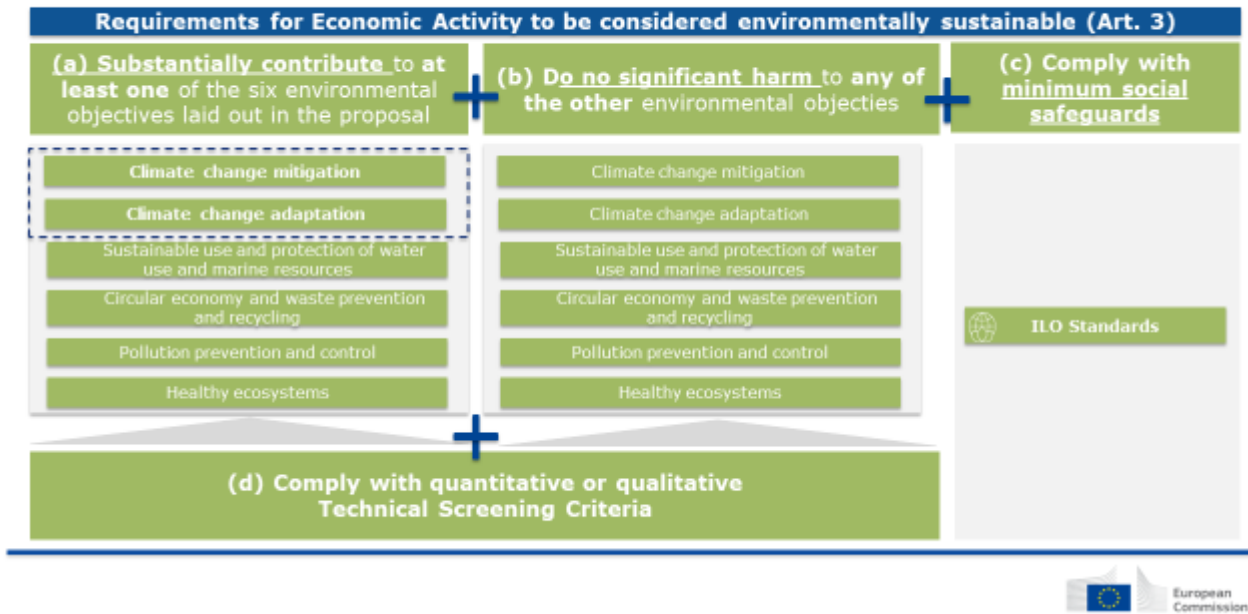
ANNEX 1: HLEG Sustainability Taxonomy Framework¹⁹

SECTORS	From explicitly climate change to broader environmental sustainability to broader environmental and social sustainability									
	Climate change mitigation	Climate change adaptation	Healthy natural habitats	Water resource management & conservation	Waste minimisation	Pollution prevention and control	Agricultural & fisheries productivity	Access to food	Access to basic infrastructure	Access essential services
Electricity production	✓									
Heat production and supply	✓									
Electricity transmission, distribution and storage	✓									
Industry	✓									
Products & supply chain activities	✓									
Buildings	✓									
Urban development	✓									
Transport	✓									
Water supply, management, & wastewater treatment	✓									
Solid waste management	✓									
Agriculture, husbandry, aquaculture & fisheries	✓									
Forestry	✓									
Natural ecosystems	✓									
Education	✓									
Healthcare	✓									
Information & communication technology	✓									
Financial products & services	✓									
Cross-cutting activities	✓									

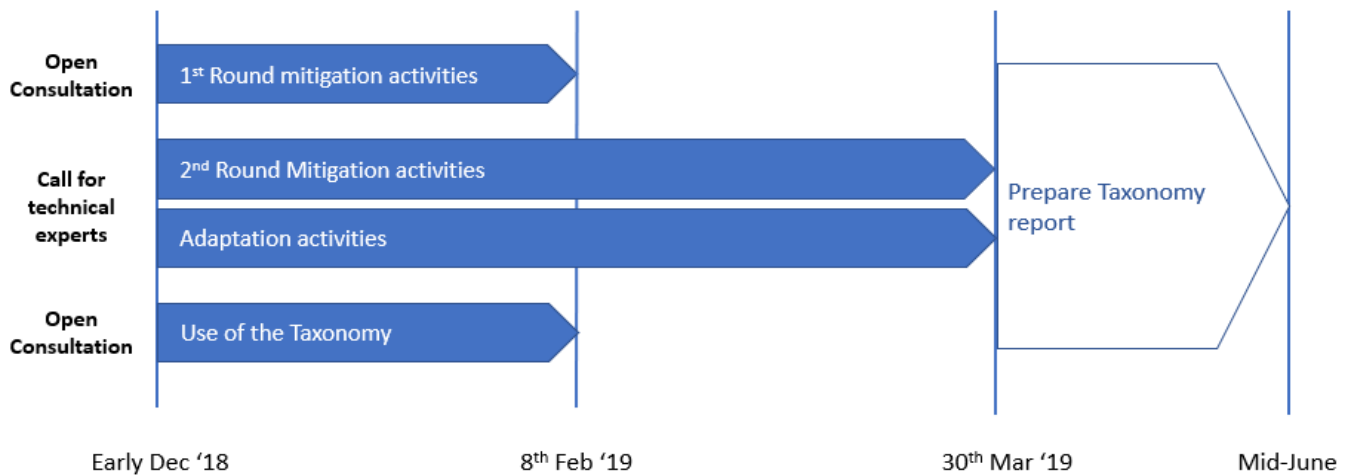
¹⁹ Source: Final Report of High Level Expert Group on Sustainable Finance https://ec.europa.eu/info/sites/info/files/180131-sustainable-finance-final-report_en.pdf, p.18

ANNEX 2: EU Sustainability Requirements

Taxonomy - Which economic activities will qualify?



ANNEX 3: TEG-Timeline for Taxonomy Consultations²⁰



²⁰ Source: TEG Subgroup on Taxonomy, November 2018

The need for a common language in Green Finance

Extending classification of objectives and activities for a shared market-based measurement of environmental impact and risk

ANNEX 4: GBP WG on Green Projects Eligibility: Core Results of Clarification Process by EIB and Rabobank

Core Questions				
Institution type	<p>1. Do you agree with the opportunity of a clear separation of activities and objectives in the Use of Proceeds section of the GBPs in order to provide issuers with the opportunity to:</p> <ul style="list-style-type: none"> - Clarify the primary areas of green impact of the activities underlying their green bonds - Indicate how they intend to monitor such green impact over time 	<p>2. In case a clear separation of activities and objectives is retained, now or later, would you prefer to:</p> <ul style="list-style-type: none"> A) Maintain the current set of GBP-objectives; B) Discuss a new set of GBP-objectives 	<p>3. In case the distinction between activities and objectives is retained, now or later, would you prefer to:</p> <ul style="list-style-type: none"> A) Maintain the current categories (without objectives) as reference in the UoP-section; B) Move the current categories (without objectives) to the Resource Center/Q&A and adopt a higher-level list of activities in the UoP-section 	Comments
Summary	YES = 24 No Answer = 4	A = 20 B = 3 Unsure = 1 No Answer = 4	A = 15 B = 9 No Answer = 4	A thorough technical discussion is required on: <ul style="list-style-type: none"> 1) how to take forward the separation of activities and objectives 2) the list of activities
Issuer	YES	A	B*	(*) The preference is for a list of activities that can be used as medium to compare all lists of activities used in the market. This would facilitate the standard-neutral comparison of different standards by market actors.
Issuer	YES*	A	A	(*) <ul style="list-style-type: none"> a) Does not see great need to create this separation, especially as objectives and activities are not always clear-cut. b) Potential value if, and support conditional on: <ul style="list-style-type: none"> 1) Specific impact metrics are developed 2) Objectives extended to Social 3) No exclusivity of one objective 4) Detailed and non-exclusive list of activities
Issuer	YES	A	A*	(*) Until adequate discussion has taken place. The timeframe is too short at the moment.
Issuer	YES	A	A*	(*) The current categories are not completely satisfactory but a higher level list may be too generic to bring a real improvement.
Issuer	YES	A*	A**	(*) It would be good to consider green and social objectives in parallel (**) until adequate discussion has taken place.
Issuer	YES	A	A*	It would be good to insert text to further encourage investors to map projects to objectives. (*) until adequate discussion has taken place.
Investor	YES	A	A*	(*) This requires additional discussion(s) before final decision. Implementation this year seems tricky due to deadlines.
Investor	YES	A	B*	(*) Two months are not enough, one year could be necessary to change the list of activities.
Investor	YES	A	A*	(*) Until adequate discussion has taken place.

The need for a common language in Green Finance

Extending classification of objectives and activities for a shared market-based measurement of environmental impact and risk

Core Questions				
Institution type	1. Do you agree with the opportunity of a clear separation of activities and objectives in the Use of Proceeds section of the GBPs in order to provide issuers with the opportunity to: - Clarify the primary areas of green impact of the activities underlying their green bonds - Indicate how they intend to monitor such green impact over time	2. In case a clear separation of activities and objectives is retained, now or later, would you prefer to: A) Maintain the current set of GBP-objectives; B) Discuss a new set of GBP-objectives	3. In case the distinction between activities and objectives is retained, now or later, would you prefer to: A) Maintain the current categories (without objectives) as reference in the UoP-section; B) Move the current categories (without objectives) to the Resource Center/Q&A and adopt a higher-level list of activities in the UoP-section	Comments
Investor	YES	A	B*	(*) It's time to compare and adopt standard. But we need to keep a place for innovation (social overlaps) even if the timeframe seems a bit short.
Investor	YES*	A	A**	The Q&A section needs to explain with clarity that multiple objectives are possible. (* the approach adopted on the green side should also be replicated on the social side (**) until adequate discussion has taken place. Caution with regard to this year's deadlines.
Investor	YES	Unsure	B	The answers to questions 2 and 3 are not definitive, there are many implications to be assessed.
Investor	No Answer	No Answer	No Answer	
Investor	No Answer	No Answer	No Answer	
Bank	YES	B*	A	(*) Only if this exchange is done next year and provided that the necessity of such discussion becomes more obvious.
Bank	YES	A	B*	(*) We suggest to keep the current categories as they are but over time this global taxonomy could be the system of integrated environmental and economic accounting (SEEA 2012 CF), used in many countries. We can show alignment of current GBP categories with their SEEA classes. Bank is happy to provide a proposal. Link: SEEA website.
Bank	YES	A	A*	(*) Some concerns regarding the distinction between activities and projects
Bank	YES	B*	A*	(*) I am in favor, now over the next year I understand, to bring clarity to GBP/SBP and evolve in the direction of qualifying environmental/social ambition, in all cases refining and bringing rigor into the existing GBP categories to build up : 1/ a set of environmental/social objectives, which could well be the 5 objectives mentioned already in the GBP text and 2/ a set of eligible categories of projects/activities that would be an evolution from the existing eligible categories
Bank	YES	A	B*	(*) The preference is for a list of activities that can be used as medium to compare all lists of activities used in the market. This would facilitate the standard-neutral comparison of different standards by market actors.

The need for a common language in Green Finance

Extending classification of objectives and activities for a shared market-based measurement of environmental impact and risk

Core Questions				
Institution type	4. Do you agree with the opportunity of a clear separation of activities and objectives in the Use of Proceeds section of the GBPs in order to provide issuers with the opportunity to: - Clarify the primary areas of green impact of the activities underlying their green bonds - Indicate how they intend to monitor such green impact over time	5. In case a clear separation of activities and objectives is retained, now or later, would you prefer to: C) Maintain the current set of GBP-objectives; D) Discuss a new set of GBP-objectives	6. In case the distinction between activities and objectives is retained, now or later, would you prefer to: C) Maintain the current categories (without objectives) as reference in the UoP-section; D) Move the current categories (without objectives) to the Resource Center/Q&A and adopt a higher-level list of activities in the UoP-section	Comments
Bank	YES	A	A	
Bank	YES	A	A*	The GBP should be high-level, a more detailed categorization can be risky. (* careful discussions are needed.
Bank	No Answer	No Answer	No Answer	
Bank	No Answer	No Answer	No Answer	
External Reviewer	YES	A*	B	(* Importance of understanding the level of granularity that the GBP want to reach.
External Reviewer	YES*	A	A	* 'Exactly in line with Issuer X', i.e.: a) Does not see great need to create this separation, especially as objectives and activities are not always clear-cut. b) Potential value if, and support conditional on: 1) Specific impact metrics are developed 2) Objectives extended to Social 3) No exclusivity of one objective 4) Detailed and non-exclusive list of activities
External Reviewer	YES	A	B*	(* The revised list of activities needs to be exhaustive.
NGO	YES*	B**	A	(* Subject to non-exclusivity of the objectives. (**) It would be good to consider green and social objectives in parallel.
NGO	YES	A	B*	(* Provided that the higher-level list is compatible and consistent with lists of activities that offer a higher level of granularity (i.e., taxonomies scheduled to be developed by the European Expert Group and/or under ISO 14030-2.)

ANNEX 5: GBP Use of Proceeds, 2018 vs. 2017

1. Use of Proceeds

The cornerstone of a Green Bond is the utilisation of the proceeds of the bond for Green Projects ~~(including other related and supporting expenditures, such as R&D)~~, which should be appropriately described in the legal documentation for the security. All designated Green Projects should provide clear environmental benefits, which will be assessed and, where feasible, quantified by the issuer.

In the event that all or a proportion of the proceeds are or may be used for refinancing, it is recommended that issuers provide an estimate of the share of financing vs. re-financing, and where appropriate, also clarify which investments or project portfolios may be refinanced, and, to the extent relevant, the expected look-back period for refinanced Projects.

The GBP explicitly recognise several broad categories of eligibility for Green Projects ~~with the objective which contribute to address key areas of~~ environmental ~~concern~~ objectives such as: climate change mitigation, climate change adaptation, natural ~~resources depletion, loss of~~ resource conservation, biodiversity conservation, and ~~air, water or soil~~ pollution prevention and control.

The following list ~~is intended to be~~ of project categories, while indicative ~~and~~, captures the most ~~commonly used common~~ types of projects supported by or expected to be supported by the Green Bond market. Green Projects ~~can also include other related and supporting expenditures such as R&D and~~ may relate to more than one category and/or environmental objective. Three environmental objectives identified above (pollution prevention and control, biodiversity conservation and climate change adaptation) also serve as project categories in the list. As such, they refer to the projects that are more specifically designed to meet them.

The eligible Green Project categories, listed in no specific order, include, but are not limited to:

- renewable energy (including production, transmission, appliances and products);
- energy efficiency (such as in new and refurbished buildings, energy storage, district heating, smart grids, appliances and products);
- pollution prevention and control (including waste water treatment, reduction of air emissions, greenhouse gas control, soil remediation, waste prevention, waste reduction, waste recycling and energy/emission-efficient waste to energy; ~~value added products from waste and remanufacturing, and associated environmental monitoring~~);
- environmentally sustainable management of living natural resources and land use (including environmentally sustainable agriculture; environmentally sustainable animal husbandry; climate smart farm inputs such as biological crop protection or drip-irrigation; environmentally sustainable fishery and aquaculture; environmentally-sustainable forestry, including afforestation or reforestation, and preservation or restoration of natural landscapes);
- terrestrial and aquatic biodiversity conservation (including the protection of coastal, marine and watershed environments);
- clean transportation (such as electric, hybrid, public, rail, non-motorised, multi-modal transportation, infrastructure for clean energy vehicles and reduction of harmful emissions);

The need for a common language in Green Finance

Extending classification of objectives and activities for a shared market-based measurement of environmental impact and risk

- sustainable water and wastewater management (including sustainable infrastructure for clean and/or drinking water, wastewater treatment, sustainable urban drainage systems and river training and other forms of flooding mitigation);
- climate change adaptation (including information support systems, such as climate observation and early warning systems);
- eco-efficient and/or circular economy adapted products, production technologies and processes (such as development and introduction of ~~environmentally friendlier sustainable~~ products, with an eco-label or environmental certification, resource-efficient packaging and distribution);
- green buildings which meet regional, national or internationally recognised standards or certifications.

While the GBP's purpose is not to take a position on which green technologies, standards, claims and declarations are optimal for environmentally sustainable benefits, ~~issuers~~ it is noteworthy that there are several current international and national initiatives to produce taxonomies, as well as to provide mapping between them to ensure comparability. This may give further guidance to Green Bond issuers as to what may be considered green and actionable by investors. These taxonomies are currently at various stages of development. Issuers and other stakeholders can refer to examples through links listed on the Resource Centre at www.icmagroup.org/gssbresourcecentre .

Furthermore, there are many institutions that provide independent analysis, advice and guidance on the quality of different green solutions and environmental practices. Definitions of green and green projects may also vary depending on sector and geography.

The need for a common language in Green Finance

Extending classification of objectives and activities for a shared market-based measurement of environmental impact and risk

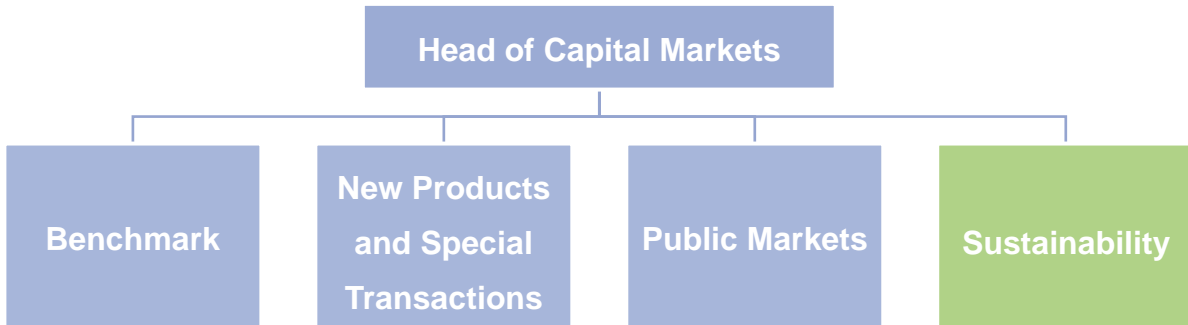
ANNEX 6: Creation of a new Sustainability Funding Team at EIB

OLD distribution of Funding Responsibilities at EIB



By Currencies

NEW distribution of Funding Responsibilities at EIB



By Products

ANNEX 7: Use of Proceeds for Sustainability Awareness Bonds

The Treaty on European Union aims to establish an internal market that works for the sustainable development of Europe. Ensuring an appropriate regulatory environment is a priority area of the EU's Capital Markets Union. The European Commission's Action Plan on 'Financing Sustainable Growth' has been designed to help reorient capital flows towards sustainable investment.

For this purpose, a Regulation proposal of May 2018 (the 'Proposal') aims to stimulate companies to measure the impact of their activities on sustainable objectives via the development of a shared understanding of sustainability. The Proposal underlines that the European Union is committed to the implementation of the UN's 2030 Agenda for Sustainable Development and takes on board in all its actions and policy initiatives the Agenda's Sustainable Development Goals.

The task of the European Investment Bank is to contribute to the balanced and steady development of the internal market in the interest of the Union. In July 2007, in congruence with the EU Energy Action Plan, the EIB issued the first Climate Awareness Bond (CAB) with a focus on renewable energy and energy efficiency. The goal was to increase accountability of disbursements via precise eligibility criteria and to provide transparent impact assessment to capital markets.

Sustainability Awareness Bonds (SABs) complement CABs by extending the same approach from climate to further areas of environmental and social sustainability. The proceeds of this Bond will be allocated to EIB's lending activities contributing to sustainability objectives in line with EU legislation, e.g. those included in the Proposal at this stage:

- sustainable use and protection of water and marine resources;
- transition to a circular economy, waste prevention and recycling;
- pollution prevention and control;
- protection of healthy ecosystems.

Sustainability objectives and activities are subject to revision in the context of EU legislative developments. Such revisions will not be notified to Bondholders.

The net proceeds of the issue of the Bonds (which proceeds may be converted into euro) will be allocated within EIB's treasury to a sub-portfolio of the operational money market portfolio. So long as the Bonds are outstanding, the balance of the sub-portfolio will be reduced by amounts matching disbursements made to eligible lending projects. Pending such disbursement, the sub-portfolio will be invested in money market instruments.

ANNEX 8: Use of Proceeds for New Climate Awareness Bonds

The Treaty on European Union aims to establish an internal market that works for the sustainable development of Europe. Ensuring an appropriate regulatory environment is a priority area of the EU's Capital Markets Union. The European Commission's Action Plan on 'Financing Sustainable Growth' has been designed to help reorient capital flows towards sustainable investment.

For this purpose, a Regulation proposal of May 2018 (the 'Proposal') aims to stimulate companies to measure the impact of their activities on sustainable objectives via the development of a shared understanding of sustainability. The Proposal underlines that the European Union is committed to the implementation of:

- the UN's 2030 Agenda for Sustainable Development, notably to taking on board in all actions and policy initiatives the Agenda's Sustainable Development Goals;
- the Paris Climate Agreement, notably to making finance flows consistent with a pathway towards low greenhouse gas emissions.

The task of the European Investment Bank is to contribute to the balanced and steady development of the internal market in the interest of the Union. In July 2007, in congruence with the EU Energy Action Plan, the EIB issued the first Climate Awareness Bond (CAB) with a focus on renewable energy and energy efficiency. The goal was to increase accountability of disbursements via precise eligibility criteria and to provide transparent impact assessment to capital markets.

With this CAB, EIB extends the same approach to include renewable energy, energy efficiency and other activities contributing substantially to climate change mitigation. The Proposal states that 'an economic activity shall be considered to contribute substantially to climate change mitigation where that activity substantially contributes to the stabilization of greenhouse gas concentrations in the atmosphere at a level which prevents dangerous anthropogenic interference with the climate system'.

The proceeds of this CAB will be allocated to EIB's lending to activities that contribute to this purpose by avoiding or reducing greenhouse gas emissions or enhancing greenhouse gas removals through means, including through process or product innovation, in line with evolving EU sustainable finance legislation and the related technical expert group conclusions.

Activities and means considered to contribute substantially to climate change mitigation are subject to revision in the context of EU legislative developments, which include the establishment and update by the European Commission of the technical screening criteria to determine the conditions for their consideration. Such revisions will not be notified to Bondholders.

The net proceeds of the issue of the Bonds (which proceeds may be converted into euro) will be allocated within EIB's treasury to a sub-portfolio of the operational money market portfolio. So long as the Bonds are outstanding, the balance of the sub-portfolio will be reduced by amounts matching disbursements made to eligible lending projects. Pending such disbursement, the sub-portfolio will be invested in money market instruments.

The need for a common language in Green Finance

Extending classification of objectives and activities for a shared market-based measurement of environmental impact and risk

ANNEX 9: Exemplary Rearrangement of GBP-Activities by GBP-Objectives

	GBP Environmental objectives				
Activities according to the GBP	Climate change mitigation	Climate change adaptation	Biodiversity	Natural resource conservation	Pollution prevention and control
Renewable Energy	Energy* production, transmission, appliances and products				(see 'Climate change mitigation') plus reduction of air pollution emissions
Energy Efficiency in energy supply	energy storage, district heating, smart grids, appliances and products				
Eco-efficient products, production technologies and processes	(see 'Natural resource conservation' and 'Pollution prevention and control')			development and introduction of environmentally friendlier products, with an eco-label or environmental certification, resource-efficient packaging and distribution; soil remediation	
Energy Efficiency in Buildings	(see 'Natural resource conservation' and 'Pollution prevention and control')			new and refurbished buildings including those which meet regional, national or internationally recognized green standards or certifications	
Clean Transportation	electric, hybrid, public, rail, non-motorised, multi-modal transportation, infrastructure for clean energy vehicles				(see 'Climate change mitigation') plus infrastructure for reduction of harmful emissions
Sustainable Water Management	sustainable infrastructure for clean and/or drinking water, wastewater treatment, sustainable urban drainage systems and river training and other forms of flooding mitigation				
Pollution Prevention and Control of waste	greenhouse gas control				reduction of non-GHG pollution emissions
Sustainable management of living resources and land use	environmentally sustainable agriculture and animal husbandry; climate smart farm inputs such as biological crop protection or drip irrigation; environmentally sustainable fishery and aquaculture;				
	environmentally sustainable forestry, including afforestation or reforestation, and preservation or restoration of natural landscapes				
Terrestrial and aquatic biodiversity conservation		protection of coastal, marine and watershed environments			
Other		infrastructure adaptation; information support systems, such as climate observation and early warning systems			

*In red: suggested amendments of the current GBP-text for higher technical precision; otherwise GBP-text

Source: EIB Projects Directorate

The need for a common language in Green Finance

Extending classification of objectives and activities for a shared market-based measurement of environmental impact and risk

ANNEX 10: High-level Equivalences Across Classification Standards

Activities according to GBP	Activities according to China Green Bond Catalogue	Activities according to HLEG	Activities according to NACE	Activities according to CBI	Activities according to MDB-IDFC
Renewable Energy	Clean Energy	Energy Production	ELECTRICITY, GAS, STEAM AND AIR CONDITIONING SUPPLY	Energy	Renewable energy
Energy Efficiency in energy supply		Energy Distribution			Energy efficient transmission and distribution systems
Eco-efficient products, production technologies and processes	Energy Saving	Industry / Products and Supply Chain Activities	MANUFACTURING	Industry and Energy Intensive Commercial	Low carbon technologies, energy efficiency in industry
Energy Efficiency in Buildings		Buildings / Urban Development	CONSTRUCTION	Low Carbon Buildings	Energy efficiency in buildings
Clean Transportation	Clean Transportation	Transport	TRANSPORTATION AND STORAGE	Transport	Transport
Sustainable Water Management	Resource Conservation and Recycling	Water Supply and Management / Wastewater Treatment	WATER SUPPLY; SEWERAGE, WASTE MANAGEMENT AND REMEDIATION ACTIVITIES	Water	Wastewater
Pollution Prevention and Control of waste	Pollution Prevention and Control	Solid Waste Management		Waste and Pollution Control	Waste
Sustainable management of living resources	Ecological Protection and Climate Change Adaption	Agriculture, Husbandry, Aquaculture and Fisheries	AGRICULTURE, FORESTRY AND FISHING	Nature Based Assets	Agriculture, forestry and land use
		Forestry			Agriculture, forestry and land use
Terrestrial and aquatic biodiversity conservation		Natural ecosystems	NO RELEVANT CATEGORY		Afforestation and reforestation, and biosphere conservation
Other	No category	Education / Health / Communication / Information Technology / Cross-Cutting Activities	OTHER SECTORS	Information Technology and Communication	Cross cutting issues, non-energy GHG reductions

Source: EIB Projects Directorate