

MEMO# 33955

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EU ESG: IPSF Publishes Reports on Common Ground Taxonomy and ESG Disclosure

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TO: ICI Members

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EU ESG Disclosure Regulation Working Group SUBJECTS: ESG

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On 4 November 2021, the International Platform on Sustainable Finance (IPSF) published the Common Ground Taxonomy package, including an instruction report[\[1\]](#) and a Common Ground Taxonomy Table[\[2\]](#) that is open for public feedback[\[3\]](#) until 4 January 2022. The IPSF also published a report on ESG disclosures regimes across jurisdictions (ESG Disclosure Report).[\[4\]](#)

As background, the IPSF set up two working groups on sustainability disclosures and taxonomies in 2020. Co-chaired by the EU and China, the taxonomy-focused working group aims to assess the existing environmentally sustainable taxonomies and identify commonalities and differences. The working group on sustainability disclosures facilitates the exchange of views and information on national and international policy and regulatory developments regarding sustainability reporting, with the aim of supporting further alignment of sustainability disclosure requirements across jurisdictions.

The Common Ground Taxonomy and the ESG Disclosure Report are the outcomes of the two working groups respectively. The Common Ground Taxonomy covers commonalities between the green taxonomies of the EU and China, with an initial focus on climate change mitigation activities. The ESG Disclosure Report provides an overview of the state of ESG disclosure-related policy measures across the 17 IPSF jurisdictions,[\[5\]](#) plus Brazil and the US.

This memorandum briefly summarizes the key features of the Common Ground Taxonomy and the major observations from the ESG Disclosure Report.

1. Key features of the Common Ground Taxonomy

The working group on taxonomies undertook an in-depth comparison exercise and puts forward areas of commonality between the EU Taxonomy Regulation^[6] and China's Green Bond Endorsed Projects Catalogues (2021 Edition) (hereinafter "China taxonomy").^[7] This work has become known as the Common Ground Taxonomy. It does not entail any legal implications in either jurisdiction.

A. Building blocks for jurisdictions to develop taxonomies

The working group notes that as taxonomies are being developed by a growing number of countries and regions around the world, it is becoming more and more important to avoid unnecessary fragmentation and confusion in the market. Taxonomies should be developed based on common sustainability objectives and use a common language in order to make them more comparable and interoperable. By providing more clarity and transparency about the commonalities and differences between taxonomy approaches, the Common Ground Taxonomy could be served as an analytical tool or reference for jurisdictions to consider when developing their own taxonomies. Its ultimate aim is to help facilitate greater global interoperability and the flow of green finance.

B. Initial focus on climate change mitigation

In its initial analysis, the Common Ground Taxonomy compares the climate change mitigation objective of the EU Taxonomy to the climate change objective of the China taxonomy. Considering the differences of the environmental legislation systems in the EU and China, only substantial contribution criteria are covered. Other eligibility features, such as the principle of do no significant harm (DNSH) and minimum safeguards are not covered within the scope of the first phase.C.

C. Structure of Common Ground Taxonomy

The International Standard Industrial Classification of All Economic Activities (ISIC) is used as the neutral code to which climate mitigation activities in both EU and China taxonomies are mapped. Based on greenhouse gas emission levels in the EU and China, the Common Ground Taxonomy identifies six priority sectors: (i) agriculture, forestry and fishing; (ii) manufacturing; (iii) electricity, gas, steam and air condition; (iv) water supply, sewage, waste management and remediation activities; (v) construction; and (vi) transportation and storage.

For each activity, the working group compared the detailed descriptions and substantial contribution criteria, and assigned a scenario based on the overlaps. The extent of the overlap is described in the Common Ground Taxonomy Table. Activities for which there is unclear alignment between the EU and China taxonomies, or there is significant divergence, are excluded from the Common Ground Taxonomy.

D. Future expansion of Common Ground Taxonomy analysis

The working group identifies several areas that could be incorporated into the Common Ground Taxonomy in the future. Sectors that are currently not covered, for example, services and information and communication technology (ICT), could be added in future iterations to provide greater coverage of EU and China taxonomies. The future Common Ground Taxonomy may include additional environmental objectives and transition considerations. DNSH and minimum safeguards could also be brought in to strengthen the

comparison and interoperability between jurisdictions. Further, the working group will incorporate any new national or regional taxonomies into the Common Ground Taxonomy as they become available. The relevant time frame has yet to be established.

2. Major observations from ESG Disclosure Report

To support global efforts to improve sustainability disclosures, the ESG Disclosure Report provides a structured description and comparison of the state of ESG disclosure regulations, laws, recommendations and guidelines across all IPSF member jurisdictions, as well as Brazil and the US (as of September 2021).

The ESG Disclosure Report looks at measures at the entity level, as well as the financial product and service level. It further identifies emerging global trends and key gaps that need to be addressed to enhance transparency around sustainability risks and impact.

A. Entity-level ESG reporting

Global trend of mandatory disclosures. Mandatory ESG reporting requirements are not yet commensurate with global sustainability challenges. Except for Senegal, all analyzed jurisdictions have at least one mandatory ESG disclosure measure implemented. While mandatory disclosures are increasing overall, the working group notes that there is still capacity for more mandatory disclosure measures, given that the current implemented disclosure measures cover only a few, specific environmental issues.

Low content specification and underdeveloped assurance requirement. The number of disclosure measures that refer to specific metrics is still low. The working group notes that, in order to increase the comparability of disclosures, disclosure measures could refer to specific metrics or key performance indicators (KPIs), and supplement this either by providing clear guidance on the metrics calculations or requiring transparency about the calculations by companies. This would help reduce information costs, clarify the reporting procedure, and minimize the potential of greenwashing.

Assurance requirements are rather scarce in existing disclosure measures; however, it is an emerging aspect among some planned measures. The working group notes that this development supports the quality of disclosed information and serves as an important step towards improving disclosures in the future.

Double materiality on the rise. An increasing number of disclosure measures clearly define the underlying perspective of materiality. While a focus on financial materiality is more common, double materiality is on the rise. The working group recognizes the Sustainability Accounting Standards Board (SASB) Materiality Map, which is commonly used for voluntary reporting, could be used to support mandatory reporting. The SASB standards generally adhere to traditional financial materiality, but could also be further developed to entail the concept of double materiality.

Focus on large corporates and listed entities. In all jurisdictions with existing or planned ESG disclosure requirements, at least one of the measures defines the scope of reporting entity by the listing status. Alternatively, many disclosure measures apply size-based thresholds, for instance, the number of employees, as larger companies are expected to have larger impacts. The working group nevertheless notes that ESG disclosure measures for non-listed companies and for small-and-medium enterprises are necessary to help understand the related sustainability risks and impacts and to enable their access to

sustainable finance.

Disclosure channels and reporting standards. All analyzed jurisdictions with disclosure measures have at least one that requires public disclosure. In many cases, entities are free to decide whether they publish a sustainability report or include ESG information in their annual reports.

There is no predominant reporting standard across the analyzed jurisdictions. However, disclosure measures often refer to Global Reporting Initiative (GRI), SASB, the Integrated Reporting Framework,^[8] or the recommendations of the Task Force on Climate-related Financial Disclosures (TCFD).

B. Product- and service-level ESG reporting

Only a few jurisdictions have product-and/or service-level ESG disclosure measures in place or planned. Most of these product-and/or service-level disclosure measures focus on environmental issues.

Financial materiality is the predominant standard for product-and/or service-level measures. Among the analyzed jurisdictions, only the EU applies the double materiality approach. There are considerably more disclosure measures for financial products than for services. Of these financial product disclosures, requirements for funds are more common than for other products such as bonds, equity and loans. The EU and Norway are the only two jurisdictions that introduced disclosure measures for financial services. Disclosure about financial products and services could either take place periodically, pre-contractually, or both. In most cases, information should be presented online and/or in the product prospectus.

The working group notes that these product-and/or service-level disclosure measures are still vague in their requirements, making it difficult to ensure comparable and decision-relevant information across different markets.

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endnotes

^[1] Common Ground Taxonomy - Climate Change Mitigation Instruction Report (November 2021), *available at* https://ec.europa.eu/info/sites/default/files/business_economy_euro/banking_and_finance/documents/211104-ipsf-common-ground-taxonomy-instruction-report_en.pdf.

^[2] Common Ground Taxonomy Table (4 November 2021), *available at* https://ec.europa.eu/info/sites/default/files/business_economy_euro/banking_and_finance/do

[cuments/211104-ipsf-common-ground-taxonomy_table_en.pdf](#).

[3] Call for feedback on the result of the technical comparison of some features of the EU and China taxonomies, *available at* <https://ec.europa.eu/eusurvey/runner/technical-comparison-eu-china-taxonomies-2021>.

[4] State and trends of ESG disclosure policy measures across IPSF jurisdictions, Brazil, and the US (November 2021), *available at* https://ec.europa.eu/info/sites/default/files/business_economy_euro/banking_and_finance/documents/211104-ipsf-esg-disclosure-report_en.pdf.

[5] The IPSF member jurisdictions are Argentina, Canada, Chile, China, European Union, Hong Kong, India, Indonesia, Japan, Kenya, Morocco, New Zealand, Norway, Senegal, Singapore, Switzerland, and the United Kingdom.

[6] Regulation (EU) 2020/852 of the European Parliament and of the Council of 18 June 2020 on the establishment of a framework to facilitate sustainable investment, and amending Regulation (EU) 2019/2088 (Text with EEA relevance), *available at* <https://eur-lex.europa.eu/legal-content/EN/TXT/?uri=celex:32020R0852>.

[7] Green Bond Endorsed Projects Catalogue (2021 Edition), *available at* <http://www.pbc.gov.cn/goutongjiaoliu/113456/113469/4342400/2021091617180089879.pdf>

[8] Commonly used disclosure standards are rapidly consolidating. In June 2021, SASB and the Integrated Reporting Framework merged into the Value Reporting Foundation (VRF). Then on November 3, the IFRS Foundation announced its intention to acquire the VRF by June 2022. At the same time, the IFRS Foundation established the International Sustainability Standards Board (ISSB), which will leverage the SASB standards and Integrated Reporting framework when developing global reporting standards.