Response: IPSF Common Ground Taxonomy

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Background

The World Federation of Exchanges (WFE) is the global trade association for regulated exchanges and clearing houses. We represent over 250 market-infrastructures, spread across the Asia-Pacific region (~37%), EMEA (~43%) and the Americas (~20%). with everything from local entities in emerging markets to groups based in major financial centres. Collectively, member exchanges are home to nearly 53,000 listed companies, and the market capitalisation of these entities is over $95 trillion, while the 50 distinct CCP clearing services (both vertically integrated and stand-alone) collectively ensure that traders put up $1 trillion of resources to back their risk positions.

With extensive experience of developing and enforcing high standards of conduct, WFE members support an orderly, secure, fair and transparent environment for investors; for companies that raise capital; and for all who deal with financial risk. We seek outcomes that maximise financial stability, consumer confidence and economic growth. And we engage with policy makers and regulators in an open, collaborative way, reflecting the central, public role that exchanges and CCPs play in an internationally integrated financial system.

If you have any further questions, or wish to follow-up on our contribution, the WFE remains at your disposal. Please contact:

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The IPSF Common Ground Taxonomy

The WFE welcomes the International Platform on Sustainable Finances' (IPSF) Common Ground Taxonomy on climate change-mitigation, and its ambition to improve the comparability and interoperability of taxonomies across the world. This work comes at a pivotal moment, with the debate around mobilizing climate-aligned finance to facilitate cross-border green financial flows gaining momentum at COP26. An increasing number of jurisdictions are developing their own, disparate taxonomies which could lead to fragmentation in the market. To this end, our members support this initial analysis which will provide jurisdictions with (i) a reference point when developing taxonomies; (ii) information on the types of activities that lend themselves to climate-change mitigation; and (iii) provides comparability and consistency across global taxonomies.

Whilst we don't believe that a singular global taxonomy will be viable, there is merit in applying a consistent set of global principles across all jurisdictions and industries to ensure that activities are aligned with the Paris goals. As part of its input paper to the G20 SWG, the IPSF put forward several high-level principles for jurisdictions and markets to develop a coherent approach to identifying and aligning investments with sustainability goals. We would propose that the IPSF, as a multilateral forum to influence the development of sustainable finance regulatory measures, should encourage individual jurisdictions to consider the following principles[1] that should underpin the development of their own taxonomies:

- Taxonomies should be regularly reviewed and updated to reflect developments in products and sustainable technologies and should be based on a governance process that is robust, inclusive and transparent.
- Taxonomies should be objective in nature, supported by clearly defined metrics and thresholds that are aligned to the goals of the Paris Agreement and science-based targets.
- Metrics should be defined and applied to sectors using science-based targets, balancing ease of use with transparency and robustness, to both assess climate impact and support third-party verification, in order to avoid the potential risk of greenwashing.
- Activities should Do No Significant Harm (DNSH) to any of the 17 SDGs. Safeguards should also be introduced to ensure that a positive contribution to one objective will not be outweighed by relatively small, negative impacts to another.

Whilst we agree with the initial focus of this mapping exercise, the pandemic has shifted the focus to broader environmental and social issues. Whilst DNSH and minimum safeguards were identified as a common feature of both the EU and China taxonomies, they were not uniform or comparable (and should be examined as part of a future assessment). For example, there are a number of voluntary, international human rights related norms[2] which jurisdictions currently comply with. To create further consistency and compatibility in this area, the IPSF should consider the alignment of minimum safeguards with the forthcoming EU social taxonomy.

Transition activities will also play a key role in global movement towards net-zero[3]. A number of taxonomies[4] are already considering how to provide reassurance that taxonomies will not block access to finance for enterprises and sectors in the transition towards meeting their climate targets. Development and assessment of the DNSH and minimum safeguard criteria should be closely aligned with these taxonomies, as they will help identify activities that companies and financiers must move away from.

[1] A Taxonomy of Sustainable Finance Taxonomies- BIS

[2] For example, the UN Guiding Principles on Business and Human Rights set out how human rights risks should be governed and managed. The OCED Guidelines for Multinational Enterprises lay out expectations for responsible business practices and encourage reporting on company performance relating to: human rights, employment and industrial relations.

[3] BIS encourages the development of transition taxonomies that focus alignment with the objectives of the Paris Agreement.

[4] For example the European Commission is taking early steps to incorporate transition activities into its taxonomy, thus stimulating green technological innovations in carbon-intensive industries.

It is clear that there are a number of benefits to developing clear, consistent and harmonized taxonomies. However, we would note that taxonomies should not be relied on as a substitute for due diligence that should be undertaken by investors as part of their stewardship duties. A taxonomy will only capture a snapshot of a company's activities, so it should be used in conjunction with forward looking and decision- relevant metrics that are provided through disclosure frameworks.