



## **Building Shared Language for Green and Sustainable Finance - Guiding Principles for the Development of Taxonomies**

Statement of the International Network of Financial Centres for Sustainability (FC4S)

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We, the members of the International Network of Financial Centres for Sustainability (FC4S), recognize the significance of green and sustainable finance as a vital force in global capital markets, and within our financial centres. It is now evident that a shared language for green and sustainable finance is required to undergird market integrity, ensure compatibility, and drive coherence in practices and approaches of financial institutions, regulators, and policy institutions.

Representing 17 of the world's major financial centres, we emphasise the importance of respecting the differences in market conditions, policy objectives and institutional mandates that exist across the globe. Drawing from this extensive experience, we underscore the need for a convergence in approaches which would help to take forward today's positive momentum on green and sustainable finance.

A shared language for sustainability can be a valuable public good for the world's financial system. It is in the core interest of the world's financial centres that different efforts to develop definitions, taxonomies, and standards converge to a high standard of compatibility. The reasons are clear – a robust, well-designed, and internationally compatible taxonomy (or set of taxonomies) could help to:

- Reduce transaction costs for green and sustainable finance,
- Provide the foundation for multiple standards, products and asset classes,
- Build market trust, foster liquidity, and facilitate cross-border flows,
- Allow financial consumers to express their sustainability preferences,
- Enable regulators to refine requirements,
- Provide a basis for policymakers to adjust incentives and other measures,
- Ultimately, accelerate the transition to a sustainable economy.

To help achieve this convergence, the Network has pooled its collective experience and proposes the following principles to guide the development of definitions, taxonomies and classifications of green and sustainable finance.

**1. Scope:** An important first step is to clarify the scope of the taxonomy with respect to sustainability themes, frameworks, and definitions. Design bodies (policy institutions) should



ensure that the scope appropriately reflects the boundaries of sustainability objectives, and where necessary may choose to address a specific set of issues (i.e. climate finance).

**2. Purpose:** Taxonomies should be designed with clear end objectives – recognizing the diversity of applications to which taxonomies could be applied (i.e. consistency in use of terms, creating product labels, tracking financial flows).

**3. Good Practice:** There is evolving international practice which should be drawn upon in the development of taxonomies – to ensure consistency where possible, as well as recognize intentional differences in design.

**4. Evidence:** Taxonomies must be based on rigorous empirical evidence relating to sustainability risks, impacts, performance, and other factors. A strong empirical evidence base is a critical foundation for good capital allocation decisions, and can help ensure policy alignment between relevant financial and economic policies.

**5. Proportionality:** In order for taxonomies to have impact and achieve objectives, they should consider levels of development and sophistication of sustainable finance products, services, and practices within a given market – as well as the implications of new standards for market development at different stages.

**6. Mechanisms:** The design of taxonomies – and the labels and standards that may follow – need to balance the use of voluntary vs. mandatory mechanisms for implementation, as appropriate to different market gaps, barriers, and policy objectives across jurisdictions.

**7. Dynamism:** Taxonomies should be dynamic to allow for refinement and adaptation to changing market environments, and should include review and updating processes informed by scientific developments and the experiences of market institutions.

**8. Consequences:** Taxonomies need to be carefully designed so that they do not result in unintended consequences, such as disproportionately increasing transaction costs for green and sustainable finance products.

**9. Coordination:** Taxonomies for green and sustainable finance should be closely coordinated with other frameworks for market transparency and disclosure, including those already in place (i.e. the TCFD).

**10. Transparency:** Procedures for the development of taxonomies should be as transparent as possible, to allow market participants to determine whether taxonomy instruments are implementable, fit for purpose, and aligned with both market and policy objectives.

The FC4S Secretariat will work with Network Members to support the use of these principles in their different financial centres, as well as collaboration at the international level. We will actively engage with institutions that are designing taxonomies to ensure that they achieve their full potential. We look forward to receiving feedback from and working with market participants, public authorities, civil society and other stakeholders on the critical issue of building a common language so that we can accelerate green and sustainable finance across the world.



## About this Statement

This Statement represents the consensus view of members of the international network of Financial Centres for Sustainability (FC4S), a partnership between financial centres active in green and sustainable finance and UN Environment.

The purpose of this statement is to communicate the perspectives of members of the FC4S Network on the development and use of definitions, classification systems, taxonomies and standards for financial assets, products and services that may be considered as green or sustainable finance.

This statement is accompanied by an Expert Briefing, which provides more information on the development on taxonomies, and on the ten principles.

## About the FC4S Network

The FC4S is a partnership between leading financial centres and the United Nations Environment Programme, which acts as its Convenor and Secretariat. Following from endorsement by G7 Environment Ministers under the 2017 Italian G7 Presidency, the Network was launched in September 2017 and now has a global mission and membership.

Current members of the Network include:

- **Astana:** Astana International Financial Centre
- **Casablanca:** Casablanca Finance City Authority
- **Dublin:** Sustainable Nation Ireland
- **Frankfurt:** Green and Sustainable Finance Cluster Germany
- **Geneva:** Sustainable Finance Geneva
- **Hong Kong:** Green Finance Task Force
- **London:** City of London Green Finance Initiative
- **Luxembourg:** Luxembourg for Finance
- **Liechtenstein:** Liechtenstein Bankers Association
- **Milan:** Centro Finanziario Italiano per la Sostenibilita (CFIS)
- **Paris:** Finance for Tomorrow
- **Seoul:** Seoul Metropolitan Government
- **Shanghai:** Lujiazui Financial City
- **Shenzhen:** Shenzhen Green Finance Committee
- **Stockholm:** Stockholm Green Digital Finance
- **Toronto:** Toronto Finance International
- **Zurich:** Swiss Sustainable Finance

Partner organisations include:

- Climate Bonds Initiative
- Climate-KIC
- Principles for Responsible Investment
- Sustainable Stock Exchange Initiative
- UNEP Finance Initiative

For further information, see [www.fc4s.org](http://www.fc4s.org), or contact Jeremy McDaniels (Head of Projects, FC4S Network), at [Jeremy.McDaniels@un.org](mailto:Jeremy.McDaniels@un.org).