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# MA JUN'S REMARKS

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By Ma Jun, Chairman of Green Finance Committee of China Society for Finance & Banking, and Co-Chair of G20 Sustainable Finance Working Group

Let me start by thanking the Ministry of Finance and Central Bank of Italy for inviting me to join this important conference. It is my great pleasure to be part of this discussion.

As many speakers have touched upon the importance of green and sustainable finance, I will focus my remarks on the question of how. Based on experiences of past many years in the sustainable finance market, I think a well-functioning sustainable financial system will need to have at least for pillars:

The first pillar is taxonomy. Taxonomies, which define the boundary for and classify sustainable activities, is the basis for all sustainable finance market activities. Taxonomies can help prevent green washing and protect market integrity, and provide the basis for green performance measurement and allocation of government incentives. There are several approaches to developing such taxonomies, including the top-down approach adopted by China, the EU and a few other jurisdictions, and the bottoms-up approach, which is used by the Climate Bond Standard. Of course, taxonomy is not the only tool for aligning investments with SDGs; its implementation requires the assistance of verification services and green/ESG rating methodologies.

The second pillar is disclosure. Green and sustainable investments should deliver environmental and other benefits to SDGs. These benefits should be calculated, measured and reported in order to inform investors that are interested in investing in sustainable assets. As exposure to polluting and high-carbon assets can generate financial risks to investors, such environmental and climate risks should also be measured and disclosed. In the past few years many governments and regulators have introduced their environmental and climate related disclosure requirements, based on TCFD recommendations.

The third pillar is incentives. Under the current pricing system, many sustainable investments are not fully compensated for their positive externalities, which leads to underinvestment; and many polluting and high-carbon investments have attracted too much capital as their negative externalities are not fully internalized. Therefore, public policy tools need to be used to overcome these externalities. These policy tools include, among others, emission trading schemes, carbon taxation, policies encouraging the use of clean energy and other low-carbon products, as well green finance incentives.

The four pillar is financial product innovation. A green finance system requires many financial products in order to meet the demands from different companies and projects. We need green loans, green bonds, green funds, green ABS, green ETFs, green insurance and carbon related products. Each of them will play a role in supporting certain green and sustainable activities.

A lot of progress has been made in the past few years in the sustainable finance market, especially in these four areas which I describe as four pillars. The question for us is what the international coordination mechanisms, especially the G20, should do to further accelerate the pace of its development？This is exactly the question that the G20 Sustainable Finance Working Group (SFWG) is trying to answer.

Over the past few months, this working group, re-established by Italian Presidency and co-chaired by myself representing PBOC and Sharon Yang representing US treasury, has held two official group meetings, and many consultation meetings with private sector representatives and IOs. We have decided to produce four major deliverables this year. The first is a G20 sustainable finance roadmap which will cover many of the issues I mentioned above, and will guide the work of G20 for coming few years in this regard. The second, third and fourth items are topics the working group will work on this year, including approaches to align investments with SDGs, sustainability reporting standards, and roles of MDBs in supporting the implementation of the Paris Agreement.

Let me just give two examples of the issues that we need global coordination, including via G20 SFWG. The first is about the approaches to alignment investments with SDG, which include taxonomies and ESG rating methodologies. One problem we are facing is that as many as 200 taxonomies have popped up over the past few years; this is equivalent to 200 languages used in the same market for communication, which may create market confusion and segmentation, increase verification costs, and potentially lead to green washing. As for ESG ratings, they are also facing the problem of too many inconsistency methodologies.

The second example of issue that requires global coordination is sustainability reporting standard. There are many different types of reporting standards or proposals, developed with different principles, as well as different content requirements and presentations. The proliferation of inconsistent reporting standards is also becoming a barrier to enhancing transparency and data availability.

In the above-mentioned areas, we need to come up with solutions to improve coordination and consistency. For example, we can encourage developers of taxonomies to use the same industrial classification, encourage different jurisdictions to adopt common taxonomies on a voluntary basis, and encourage the development of unified regional taxonomy, just like what EU did for the European market. As for reporting, we should support the IFRS efforts to develop a globally accepted sustainability reporting framework, with flexibility to accommodate jurisdiction- and SME-specific requirements.

I am hopeful that, through our collective efforts, the SFWG will make concrete progress in forging consensus in many important areas that require global coordination.

Thank you very much, and back to you, Chair.